

BUDGET OVERVIEW

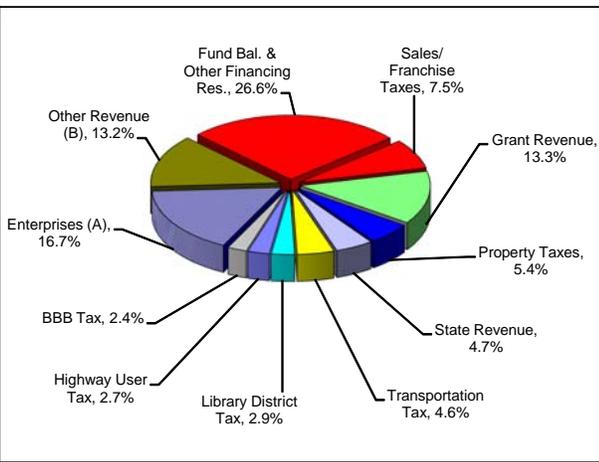
The City of Flagstaff FY 2012 Financial Plan presents a fiscally sound and balanced budget that maintains the integrity of the City's financial condition while still meeting the service level demands of a community that expects quality services. The Financial Plan is balanced not only financially, but also equally as important, balances the allocation of resources among operating

requirements, capital needs, debt burden, and strong reserves for future needs and contingencies.

This section briefly describes the document *Format and Presentation*; the *Assumptions and Strategies* which formed the working parameters of the budget development; *Highlights of Appropriations, Revenues, and Capital Improvements Plan (CIP)* for FY 2012; *Debt Structure*; and the *Fund Balances*, which are the operating framework of the Financial Plan.

FINANCIAL RESOURCES AVAILABLE

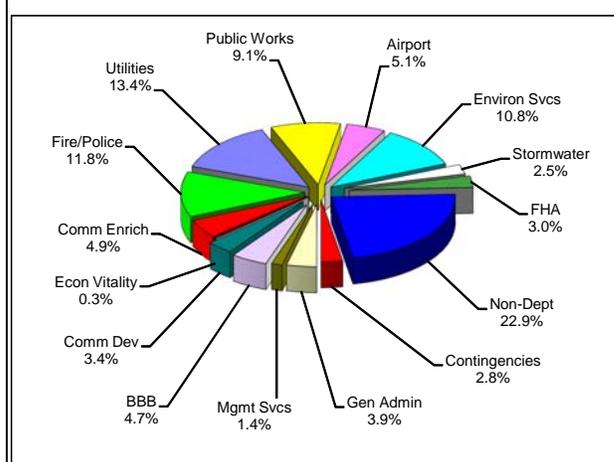
Sales/Franchise Taxes	\$ 16,228,000	7.5%
Grant Revenue	28,958,385	13.3%
Property Taxes	11,820,618	5.4%
State Revenue	10,259,706	4.7%
Transportation Tax	9,985,181	4.6%
Library District Tax	6,330,598	2.9%
Highway User Tax	5,800,000	2.7%
BBB Tax	5,307,340	2.4%
Enterprises (A)	36,329,300	16.7%
Other Revenue (B)	28,684,141	13.2%
Fund Bal. & Other Financing Res.	57,926,885	26.6%
	<u>\$ 217,630,154</u>	<u>100.0%</u>
(A) Enterprises:		
Water	\$ 12,225,067	
Wastewater	9,346,057	
Airport	1,547,201	
Environmental Services	11,766,083	
Stormwater Utility	1,444,892	
	<u>\$ 36,329,300</u>	
(B) Other Revenue:		
Licenses and Permits	\$ 990,400	
Vehicle License Tax	2,500,000	
Charges for Services	3,055,045	
Fines and Forfeits	1,262,470	
Interest on Investments	425,350	
Misc Revenue	20,450,876	
	<u>\$ 28,684,141</u>	



"WHERE THE MONEY COMES FROM"
\$217,630,154

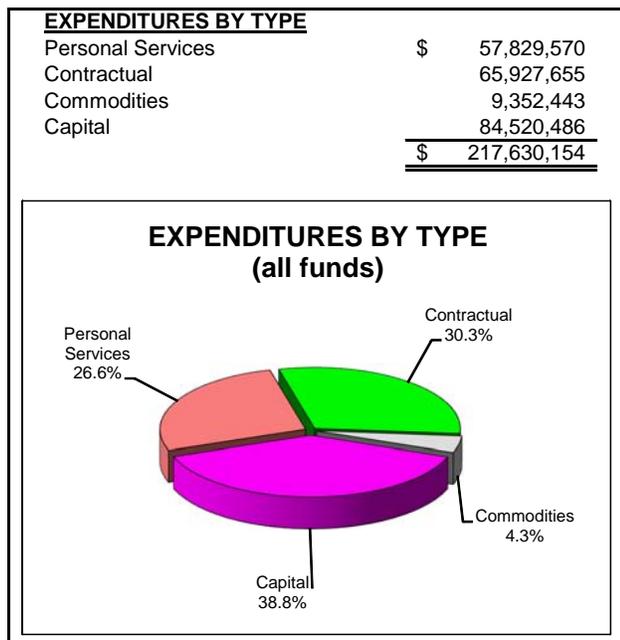
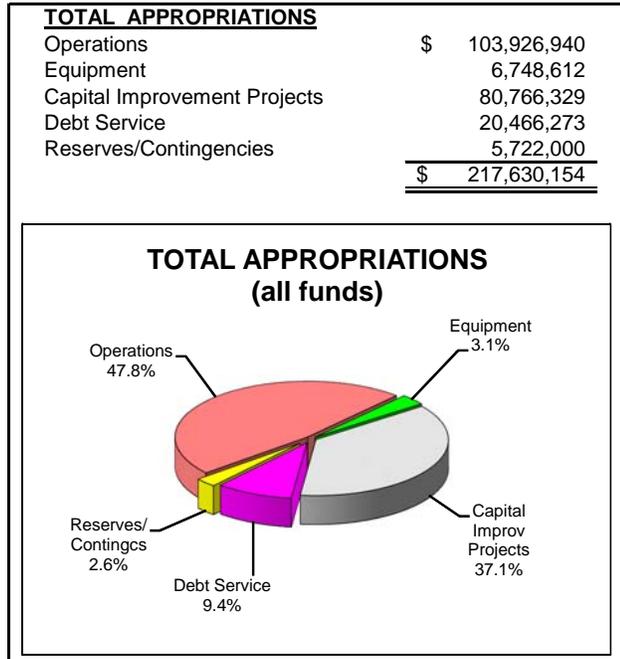
TOTAL APPROPRIATIONS

General Administration	\$ 8,463,745	3.9%
Management Services	3,051,139	1.4%
BBB (A)	10,241,149	4.7%
Community Development	7,429,599	3.4%
Economic Vitality	744,754	0.3%
Community Enrichment	10,593,879	4.9%
Fire/Police	25,733,885	11.8%
Utilities	29,222,440	13.4%
Public Works	19,902,603	9.1%
Airport	11,108,414	5.1%
Environmental Services	23,475,023	10.8%
Stormwater	5,533,132	2.5%
Flagstaff Housing Authority	6,470,299	3.0%
Non Departmental	49,938,093	22.9%
Reserves/Contingencies	5,722,000	2.8%
	<u>\$ 217,630,154</u>	<u>100.0%</u>
(A) BBB Tax Funds:		
Beautification	\$ 5,960,679	
Tourism	1,559,757	
Economic Development	2,054,630	
Arts and Science	666,083	
	<u>\$ 10,241,149</u>	



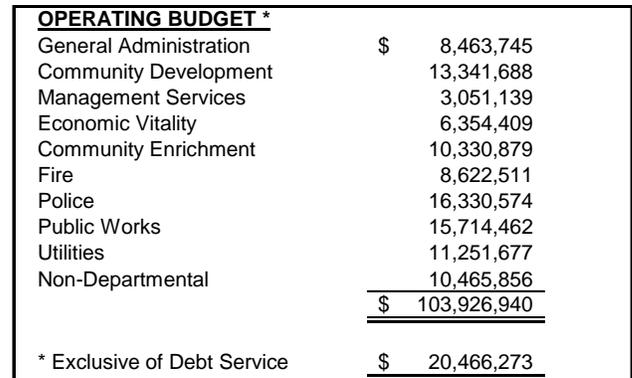
"WHERE THE MONEY GOES TO"
\$217,630,154

The following graphs depict the major classifications of appropriation for the total 2011-2012 budget and expenditures by major types.



OPERATING EXPENDITURES BY DIVISION

City operations include the traditional municipal services citizens expect their local government to provide. Operating expenditures exclude capital improvements, capital equipment, debt service and reserves. The division budgets are presented to include section budgets and Divisional (organizational structure) responsibilities as defined by the City Code.



General Administration activities comprise 8.1% of the budget (\$8.5 million). The sections within this Division provide for the overall management and administration of the City, as well as enforcement of municipal laws through legal support and the courts. This division consists of City Manager, City Clerk, City Attorney, City Court, Human Resources, Risk Management and Information Technology.

Community Development (CD) comprises 12.8% of the operating budget (\$13.3 million). The services in this Division include Planning & Development Services, Engineering, Capital Improvements, Housing, MPO (Metropolitan Planning Organization),

Community Redevelopment Services, FUTS (Flagstaff Urban Trail System), CD Administration and Flagstaff Housing Authority. The services provided by these divisions meet the current needs of the community and plan for the future.

Management Services comprises 2.9% of the operating budget (\$3.1 million). The division encompasses those activities that provide administrative support and services including financial services, budgeting, purchasing, customer service, and sales tax.

Fire Department services comprise 8.3% of the operating budget (\$8.6 million). The Division's public safety programs provide both personal safety in the community with proactive attention to preventable disasters and sense of well being through timely emergency response.

Police Department activities comprise 15.7% of the operating budget (\$16.3 million). Public safety programs provide personal safety in the community by promoting a community free of crime and assured response in emergency situations.

Public Works activities are provided by seven sections that account for 15.1% of the operating budget (\$15.7 million), excluding the debt service requirements for streets (\$2.4 million), Fourth Street (\$2.3 million), USGS facility (\$1.7 million) and the proposed capital lease for the Public Works Facility (\$0.2 million). The services provided include environmental service operations, cemetery operations, maintenance of all public facilities and public infrastructure including streets and parks, fleet services, and transportation services.

Economic Vitality activities comprise 6.1% of the operating budget (\$6.4 million) excluding debt service requirements for Airport (\$0.3 million) and Business Incubator (\$0.3 million). The division includes the following sections: Community Investment, Tourism and Visitor Center, Airport, Arts and Science, Urban Design, Streetscape, and Economic Development.

Community Enrichment activities comprise 9.9% of the operating budget (\$10.3 million) excluding debt service requirements for Recreation (\$40 thousand). The division provides the following services: recreation services and operations of the City/County public library system.

Utilities comprises 10.8% of the operating budget (\$11.3 million), excluding \$6.5 million debt service requirements. There is one administrative section responsible for management of water, wastewater,

and stormwater activities. Three sections within water operations and four sections within wastewater operations provide services that promote a clean and healthy community by providing a safe water supply and proper waste disposal. The Stormwater Utility is also included here.

Non-Departmental operations comprise 10.3% of the budget (\$10.5 million) exclusive of \$6.9 million debt service. Some sections are contractual in nature and include Contributions to Other Agencies. The Council and Commission and Non-departmental budgets account for expenditures that benefit City operations as a whole.

BUDGET FORMAT AND PROCESS

The budget and financial plan for the City of Flagstaff is the policy document that reflects the goals and objectives of the City Council. These goals and objectives are implemented through the policies and priorities established by the Council as well as the various Boards and Commissions appointed by Council. The Office of the City Manager is then responsible for implementing these policies and priorities utilizing the allocation of financial resources. The annual review process provides the community an opportunity to evaluate the services provided to the citizens of the community. Programs are identified, evaluated, and the scope of service provided is defined. The staffing level needed to provide the service level deemed appropriate by Council is determined. Additionally, funding requirements and level of effort to be provided are established.

FORMAT

The Division Detail presents each operating activity at the Section level with each Section's *Mission, Program Description, FY 2011 Accomplishments, FY 2012 New Initiatives and Goals, Performance Measures, and Financial Summary*. The performance measures look at the efficiency and/or effectiveness at the program level.

To assist the City Manager in the management of the resources expended by the municipality, the budget also serves as an operational guide. The operating budget presentation includes, for comparative purposes, the *Actual Expenditures for FY 2010, the Estimated Actual for FY 2011, and the Adopted Budget for FY 2011 and FY 2012*. Expenditures are shown by category and programs. The comparatives in the Financial Summaries Section are presented at the fund level and the

division level to aid section and program managers in budget tracking and accountability.

Categories presented are:

- Personal Services (salaries, fringe benefits, internal labor, et al)
- Contractual (professional services, utilities, maintenance, rents, debt service, et al)
- Commodities (small equipment, parts, office supplies, operating supplies, et al)
- Capital Outlay (professional services, land, buildings, street, water and sewer construction, equipment, et al)

Fund, Department, and Division Structure: The City uses funds to report its financial position and the results of its operations. Fund accounting segregates funds according to their intended purpose and is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain governmental functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts, which includes assets, liabilities, fund equity, revenues and expenditures/expenses.

Within each Fund there may be several Divisions. Divisions also may encompass several Funds. The Division level is the legal level of budget authority.

Divisions are groups of Sections that serve a similar function with the City. In addition, within each Section are Programs, which capture all expenditures, related to an activity, cost center, or location of operation within a section.

The following table represents the structure for the City.

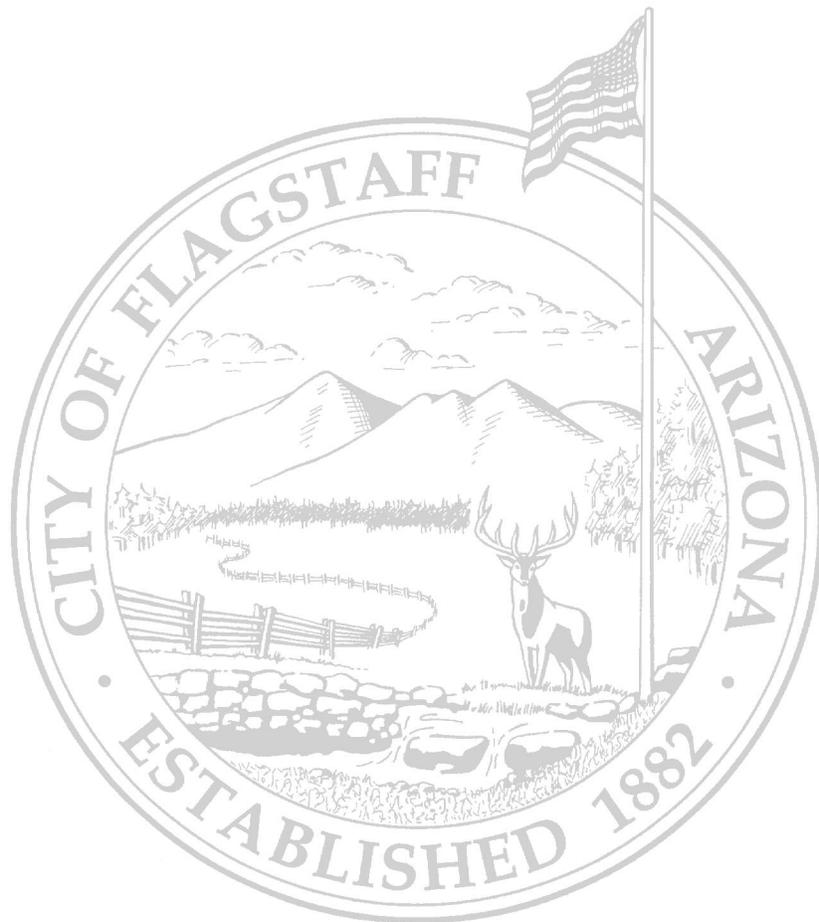


Illustration of Relationship between Funds, Divisions, and Sections

Annual Financial Plan

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City of Flagstaff

DIVISIONS	General Administration	Management Services	Community Development	Fire	Police	Public Works	Economic Vitality	Community Enrichment	Utilities	Non-departmental
FUNDS										
General Fund	City Manager City Clerk Human Resources Risk Management City Attorney Information Technology Municipal Court	Customer Service Management Services Administration Tax, Licensing & Revenue Finance & Budget	Administration Capital Improvements Development Services Engineering Housing and Community Services	Fire	Police	Administration Parks Fleet Cemetery Facilities Maintenance	Community Investment	Recreation		Council and Commission Contributions Non-departmental
Library								Library		
Highway User Revenue						Street Maintenance & Repairs				
Transportation										Transit 4th Street Overpass Safe to School Safety Improvements
Economic Development							Economic Development			
Beautification							Beautification			
Tourism							Convention & Visitors Bureau Visitor Services			
Recreation								Recreation		
Arts & Science							Arts & Science			
Real Estate Proceeds										Real Estate Proceeds
Housing and Community Services			Housing and Community Services							
Metropolitan Planning Organization			Metropolitan Planning Organization							
G.O. Bond Fund										G.O. Bond Fund
Secondary Property Tax										Secondary Property Tax
Special Assessment										Special Assessment
Perpetual Care										Perpetual Care
Capital Projects Bond										Capital Projects Bond
Water & Wastewater									Administration Lake Mary Water Treatment Plant Water Distribution Services Booster Stations Wastewater Treatment Plants Wastewater Collection Wastewater Monitoring	
Airport							Airport			
Environmental Services						Environmental Services				
Stormwater								Stormwater		
Flagstaff Housing Authority			Flagstaff Housing Authority							

BUDGET PROCESS

Budget Process Flowchart:



Presentation:

- The *Transmittal* provides a summary of the key policy issues, priorities, and strategies that shaped the budget as framed by the City Manager.
- The *Budget Overview* summarizes financial resources and expenditures along with fund summaries and an overview of selected revenues.
- *Policies and Procedures* provide an overview of both fiscal and budgetary practice.

- The Issues and Update section includes discussions on personnel costs, cost allocation, Fleet Management, IT Plan, and issue papers discussed during the budget study sessions.
- The *Financial Summaries* section includes various schedules utilizing revenue and expenditure classifications and tax levy information in accordance with state reporting requirements as mandated by statute. Expenditures are reported at both the fund level and the Division level for operational control purposes.
- The *Division Detail* section provides both narrative and financial data. The budget commentary provides an explanation of significant budget changes for FY 2012.
- The *Capital Improvement Plan* (CIP) for FY 2012 lists projects, costs, and funding sources in the Capital Improvement (CIP) Section.
- The *Community Profile* section outlines key factors that contribute to the uniqueness of our community.
- A detailed listing of personnel and changes over the last five years is provided in the *Appendix* Section.

BUDGET CALENDAR	
November	Fall Council Retreat
December	Budget Module available to all Divisions
January	Selective Program Review with Budget Team and Division Managers
January 7	Capital improvement and equipment requests reviewed by Capital Improvements and Purchasing
February 10 & 11	Winter Council Retreat
February 24 - March 10	Review with Department Heads and City Manager
April 20 - 22	Council Study Sessions Proposed Budget available to public
June 7	Tentative budget hearing and Tentative budget adoption
June 21	Final budget hearing and Final budget adoption
June 21	Truth in taxation hearing
June 22	Notify Property Tax Oversight Commission of Compliance with Truth in Taxation
July 19	Adopt Property Tax Levy

Review and Approval: Issues presented during the review and approval period include discussion topics

of the Council Spring retreat. The winter retreat was held in February, to give city staff the opportunity to present major discussion points to Council and the public. The goal is for Council to make policy decisions and direct staff in budget priorities. This provides adequate time for the Council to gather input on major budget issues prior to preparation of the budget. The City Council holds Work Sessions in April. The Council reviews and discusses all personnel recommendations, capital equipment recommendations, and the capital improvement plan. The Council arrives at a consensus for all decisions needed. The Study Sessions provide the opportunity for City management, departments and the public to offer information and recommendations to the City Council.

The Proposed Budget is presented to Council for tentative adoption on or before the third Monday in July. Two public hearings are held on the content of the budget. Final adoption occurred on June 21 2011. State law requires the operating budget to be all-inclusive. Therefore, the budget includes provisions for contingent revenues and expenditures that cannot be accurately determined when the budget is adopted, e.g., grants. The Resolution adopting the annual budget requires Council authorization for any expenditure from contingencies, as well as transfer of budget authority between departments.

Adoption: The City operates under the State Expenditure Limitation with a permanent adjustment to the base. The first adjustment provided for an increase to the base limit to allow for the expenditure of funds resulting from the addition of a 2% Bed, Board, & Booze Tax. Flagstaff is not a Home Rule city. Alternative [Home Rule] Expenditure Control municipalities require voter approval every four years.

The City received voter approval in the May 2006 general election for a second adjustment to the expenditure limitation base. This permanent adjustment was effective for the FY 2007 budget year.

The Adopted Budget reflects the total funds appropriated (\$217,630,154). Certain exclusions are allowed by the state [e.g., bond proceeds, debt service, grants] in computing the Expenditure Limitation (\$127,214,898), and this total cannot be exceeded.

Budget authority can be transferred between line items within a Section. At year-end, Division budgets are reviewed and budget authority is transferred from contingencies by Resolution as necessary.

Council can also amend total appropriations for a fund during the year by Resolution as long as there is a corresponding increase/decrease in another fund so that the total appropriation is not exceeded.

ASSUMPTIONS AND STRATEGIES

ECONOMIC OVERVIEW AND REVENUE FORECAST

The City of Flagstaff has had negative economic indicators since approximately December 2007. All local and state shared sales tax, construction revenues, state shared income tax, and highway user (gas tax) revenues have continued to decrease. Housing sales have decreased and the median home price has decreased moderately. Our community partners in both the public, private, and governmental sectors have experienced closure, staffing layoffs or furloughs, and declining revenues. A number of new projects anticipated to build the retail sector have been delayed or canceled due to the lack of available capital. The economic analysts for our local and state region give mixed messages on when the recovery may start.

The City collects three different retail sales taxes. The first is a 1% tax on all general sales, except for food. This is a general purpose tax that benefits the General Fund. The City of Flagstaff is the only city left in the State of Arizona that has a sunset clause on the general sales tax. This tax must go before the voters every ten years to be validated. Voters approved and extension of the tax in May 2010. This tax next expires in 2024.

The City realized local sales tax declines for all but four months between November 2007 and August 2010, in comparison to the same month in the prior year. Since September 2010, the City has seen increases every month between 1% and 10%. Based on business activity through January 2011, tax revenue has increased approximately 3% compared to a year ago. Of the three major categories of local sales taxes, two have seen an increase and one remains flat. Construction is up approximately 20%, hospitality is up approximately 3.5%, and general retail remains flat. Current sales tax estimates are approximately \$400,000 higher than what was projected a year ago.

The second tax is a 0.721% sales tax on the same types of general sales; however, the tax is restricted in use to certain transportation projects. The four components of this tax include Safety Improvements, Street Improvements, 4th Street Overpass, and Transit. The transportation tax components expire in 2020. As these funding shifts

from construction to maintenance, the City will pursue a permanent component to this tax. As similar sales are taxed with this source, revenue declines follow the same trends as the general sales tax.

The third tax is a Bed, Board, and Beverage (BBB) tax that collects an additional 2% for motel rooms/campgrounds, restaurants, and bars. This tax is restricted in use to certain economic, arts, beautification, recreation, or tourism activities. Tourism is a major industry for our sector and overall sales have been consistently decreasing on a monthly basis since approximately July 2008 when the gas prices were peaking. BBB tax has been less volatile than our sales tax. We have been conservative in our estimates. Overall revenue is expected to increase 5.1% over FY 2010 actual revenue. This tax must go before the voters every fifteen years to be validated. Voters approved and extension of the tax in May 2010. This tax next expires in 2028.

State shared revenue consists of both a distribution of sales tax and income tax. These distributions are made based on a city or towns' relative share of population in comparison with all other cities and towns. Except during census years, Flagstaff's population is determined by the Arizona Department of Economic Security based on a number of factors including new homes and student enrollment.

The State has experienced similar or greater revenue declines as the City. Construction, tourism, and auto sales are the three hardest hit industries. In addition to sales tax declines, the distributions of personal income tax are not meeting stated projections. Our estimate for FY 2012 is 3% below the FY 2012 estimates and 7% below the FY 2010 actual. Estimates are provided by the Joint Legislative Budget Committee. After the completion of this budget we received census information and revised budget estimate. Estimates show an increase in revenue which will be presented during the Council budget review.

Highway user revenue (gas tax) funds are projected to end 2.5% below FY2011 budget. Initial governor's proposed budget was showing a \$250,000 reduction in City funding as the state redirects the revenues for the Department of Public Safety. These revenues are distributed based on a fairly complex Arizona Department of Transportation formula, based on part on the amount of fuel purchased in our region. As fuel prices have decreased, we anticipate Flagstaff tourism to increase as we are a popular drive destination for Las Vegas, Los Angeles, and Phoenix; however that

trend is not yet evident in our monthly receipts. After this budget was balanced, the state negotiated a budget for FY 2012 which impacted our revenue distributions by an additional \$500,000. This is not reflected in this document.

Property tax revenues continue to see slight increases even though property tax valuation has decreased. This occurs as there is an approximate 18 – 24 month lag in home valuation and property tax assessment payment, and primary property taxes are based on limited assessed valuation. Property tax valuations have decreased for FY2012 as projected by the city. As the State of Arizona caps the primary property tax revenue increases at 2% on an annual basis, homeowners will actually realize a 4% rate increase from \$0.6479 to \$0.6917 per \$100 of assessed value which is a result of lower assessed values.

Going into this budget season, management was concerned about the impact FY2011 as a result of the 2010 federal census count. We had conservatively estimated a decrease in the Cities' shared revenues as we felt we may not have grown as much proportionally to the rest of the state. When census information was provided in March, the City recognized an increased proportionate share. Currently, the City population percentage in relationship to the rest of the state is approximately 1.31% versus 1.25% in 2005. We have identified two components to this increase. First, we believe that the 2000 census did not reflect the true growth of the city. It showed an increase of approximately 200 people from 1995. The other factor was that even though the city did not grow as fast in the first half of the decade we feel we did not have as big of an impact during the state declines in the second half of the decade. The impact to the general fund is approximately \$900,000 higher revenues than presented.

At the November Council budget retreat the main discussion was related to the uncertainty of our financial position and impacts related to the state's financial position. The primary focus of the discussions was related to the general fund. Even though we have seen up swings in our sales tax we were cautiously and conservatively project revenue estimates. Although we have a good understating of the revenues and expenditures that are under our control, we had concerns of what impacts are not in our control. Staff outlined many of the threats we see that could impact budget. Some of these threats were the state budget, reductions in state shared sales tax and income tax revenue, the census impact, the decline in building activity, and the loss of fire service contracts. These threats

could have major impacts on revenues. We also had discussions on positions and expenditures that were budgeted in FY 2011 as one-time funded. We had 17.88 FTE positions budgeted as one-time. Total expenses come to \$1.4 million. The general fund overview showed concerns of having a \$1 million dollar deficit which amounted to a 3% cut in operations. The Budget Team has direction to staff to prepare a flat budget with out any one-time expenses that were in their FY 2011 budget. In addition, the sections are to provide a spreadsheet outlining how a 3% cut and a 2% add would impact their operations. Council supported this direction but asked for the team to look at what larger impacts we may see if higher state cuts occur.

The February Council Budget Retreat allowed staff to update Council on our current financial positions and get additional direction from Council. Revenues continued to show stability with very moderate growth in our sales tax revenue. Staff also provided information of key expenditure increases related to state retirement and health insurance with impacted the general fund by approximately \$500,000. The general fund 5-year plan was updated and presented to Council. The plan demonstrated that we had a boost to fund balance at the close of FY 2010 in the amount of \$1.5 million. The general fund also saw a reduction in personal services related to lower industrial insurance and lower wages due to turnover. Divisions were allowed to budget the savings as a one-time expense in FY 2012. However, the structural deficit was about \$1 million. The recommendation was to fund the structural deficit with one-time money available. The retreat allowed for an update on threats and bond programs. Policy discussions were related to property tax levies and revenues, FY 2011 one-time expenditures, fiscal priorities, and Fire Department staffing. Staff also presented a summary how the City could manage a \$2 million reduction in state shared revenues. This is about a 20% reduction in these revenues. Most of the reduction in expenditures would be related to rolling position freezes, furloughs, and a 2% reduction in operating expenses resulting in a service level reduction.

At the beginning of Department Reviews, the Budget Team had shifted the strategies. Because the general fund's structural deficit past FY 2012 appeared to grow, it is best to address now and present a structurally balanced budget at the April Council Budget Retreat. One-time money from FY 2010 year end was redirected to be used only on one-time items in FY 2012 instead of masking the deficit. The personal savings allowed for one-time budget was eliminated and allowed for \$483,000 in ongoing savings. The health insurance plan was

subsidized by the benefits trust fund balance to save \$250,000. An additional 1% in expenses was cut from several divisions in the amount of \$235,000. And we explored the Use Tax revenue. By the end of Department Review, the Budget Team was able to correct the structural deficit in the general fund.

All other funds, except Library and Highway User, were expected to balance their 5-year projected expenditures with any revenue changes. Most funds were kept flat even though revenues may have shown an increase to be conservative and allow time for revenues to stabilize.

The Library Fund has the potential of losing revenues from property taxes as assessed valuations continue to decline. Although there is an option to raise the tax rate to keep the total levy flat, Council recommended keeping the rate flat. Staff estimated a 10% reduction in assessed values. The plan to balance the funds was by using built up reserves from prior year assessments that were based on growth and reducing the purchase of circulated materials. The tax rate is formally adopted by the County Board of Supervisors in August.

The Highway User Fund made a \$250,000 reduction in expenditures. As we monitored state budget activities, the Governor's plan had a redirection of revenues to fund state operations. The state legislature and Governor met and made a compromise which redirected additional revenues to fund the Department of Public Safety and Motor Vehicle Division. The impact is about \$500,000 less in revenue distribution. The City offset this decrease in HURF with the anticipated increase in state shared revenues due to census results through a revenue transfer from the General Fund.

The City is confident that it will successfully emerge from this recession and will continue to positively grow the City within available resources to assure long-term viability.

EXPENDITURES

The adopted budget is based on fiscal restraint consistent with conservative and sustainable revenue estimates. The base budget approach has required operational cost reviews and redistributions of all Departments.

Efforts to Control Expenditures – The Fleet Management Committee reviews all equipment replacement requests and prioritizes those needs. A long-range planning approach is utilized to level cash flow requirements from one year to the next.

The Fleet Committee has developed a five-year plan and continues the process of reviewing the plan to identify cash flow needs and develop alternatives to better allocate future resources. Due to varying demands, the Fleet budget is flexible, allowing monies to shift within the five-year planning period.

Fund Balance – The carry forward of fund balances remain at a level that protects the financial integrity of the City. Moody’s bond rating for the City is Aa2. The projected fund balance at the end of FY 2012 is estimated at \$15,534,315 in the General Fund. A general fund balance equal to 15% of general fund revenues has been City practice. During poor economic conditions, the City has reduced the policy fund balance to 12% of ongoing revenue. The City implemented this measure for FY 2010 to span over three years by using \$500,000 each year to meet operational needs. The City is expected to restore fund balance to 15% in the current financial plan. The General Fund balance is currently projected to be 16% at the end of FY.

The FY 2012 budget anticipates using excess fund balance from the completion of FY 2010 to fund one-time expenditures. In addition, a portion of the current fund balance represents carryforward of expenditures in equipment and capital projects.

Council Guidelines – The budget guidelines set forth by the City Manager were formulated based on Council concerns and goals.

The Council developed six priorities that encompass the following areas: a sustainable community through economic vitality, environmental protection, and social inclusion; diversity of arts, culture, and educational opportunities; livability through good neighborhoods, affordable housing, and varied recreational activities; effective governance; maintain public safety short response times and encourage expanded health services; and maintain and deliver quality, reliable infrastructure.

Budget review includes:

- *Estimated Actual Expenditures FY 2011.* Sections were asked to estimate expected expenditures by line item for FY 2011. Overage and underage amounts (and reasons, theretofore) were used to adjust the recommended budget for various line items in FY 2012.
- *Staffing Requests/Increases in Level of Service.* Divisions are required to provide narratives for increases in service levels and addition of staff. Generally, new staff additions are encouraged to have an independent funding source, or are needed to maintain current service levels.
- *Fleet Management.* All fleet equipment replacement requests were reviewed and prioritized by the Fleet Management Committee within financial parameters.
- *Information Systems.* Information Technology staff reviewed hardware and software needs. Funding was decreased and future needs have been reprioritized.
- *Capital Improvements.* The Capital Improvement staff reviewed all requests of capital projects or public improvements that require time charge outs from that section.
- *Operational Impacts.* All funds are continually evaluated relative to five-year financial projections. Increased service levels due to new programs or capital construction were projected to determine operating impacts in future years.

FUND SUMMARIES

GENERAL FUND

The General Fund includes all City operations, except enterprise activities which are to be self-sustaining, e.g., Utilities, Environmental Services, the Airport, and Stormwater; and activities funded from a special revenue source dedicated to that activity, e.g., the BBB Tax funds, the Transportation tax funds, Streets; Library; Housing and Community Services; and Metropolitan Planning Organization.

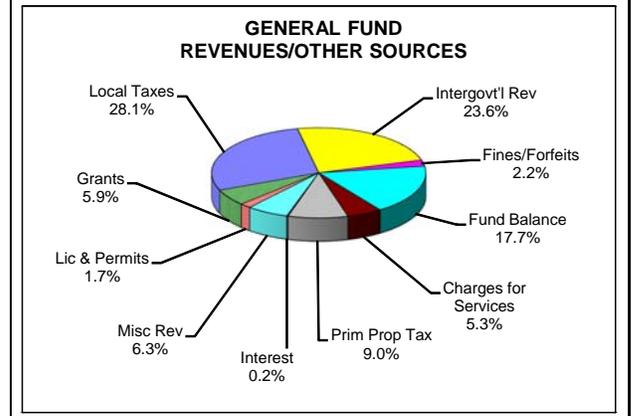
Total resources available for General Fund expenditures for FY 2012 are \$57.7 million including the estimated beginning fund balance of \$15.5 million. A substantial portion of General Fund resources comes from the following revenue categories: local sales taxes, franchise taxes, and intergovernmental revenues. Specific detail including comparative data is shown in Schedule 3 of Financial Summaries Section and a more detailed review of major revenue categories, including historical trend information, is provided following the fund summaries.

General Fund revenue/other sources compared to the year-end estimates have decreased by 7.1%. As the economy shows signs of recovery, the revenues are remaining relatively flat or show slight increases, a dramatic positive shift from the prior three fiscal years. The fund balance decrease is due to the anticipated completion of several large capital projects.

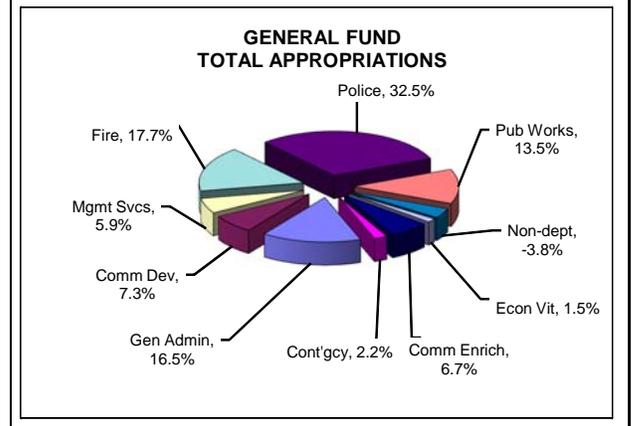
General Fund total appropriations compared to year-end estimates have increased by 10.0%. As part of the FY 2012 budget process, the City eliminated the structural deficit and restored the fund balance to a 15% minimum level. The appropriations increase is primarily due to capital carry forward.

The financial position of the General Fund remains balanced.

REVENUES/OTHER SOURCES	EST ACTUAL	BUDGET
	FY2011	FY 2012
Licenses and permits	\$ 873,650	\$ 990,400
Grants	2,727,612	3,424,655
Local taxes	15,454,500	16,228,000
Intergovernmental	13,415,306	13,609,706
Fines and forfeits	1,239,500	1,262,470
Fund Balance, net of Transfers	17,493,238	10,243,524
Fund Balance for Carryovers	814,737	924,800
Charges for services	2,571,992	3,055,045
Primary Property Tax	5,005,000	5,200,000
Interest	125,000	125,000
Miscellaneous	2,460,069	2,687,072
	\$ 62,180,604	\$ 57,750,672



APPROPRIATIONS	EST ACTUAL	BUDGET
	FY2011	FY 2012
General Administration	\$ 7,660,083	\$ 8,463,745
Community Development	3,835,999	3,752,105
Management Services	2,954,173	3,051,139
Fire	9,251,000	9,073,711
Police	15,685,947	16,660,174
Public Works	5,086,526	6,903,139
Non-departmental	(3,943,537)	(1,945,570)
Economic Vitality	456,916	744,754
Community Enrichment	4,859,182	3,418,612
Contingencies	800,000	1,200,000
	\$ 46,646,289	\$ 51,321,809



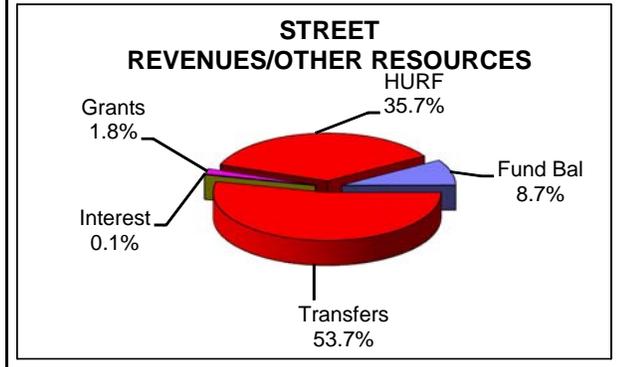
SPECIAL REVENUE FUNDS

HIGHWAY USER REVENUE FUND

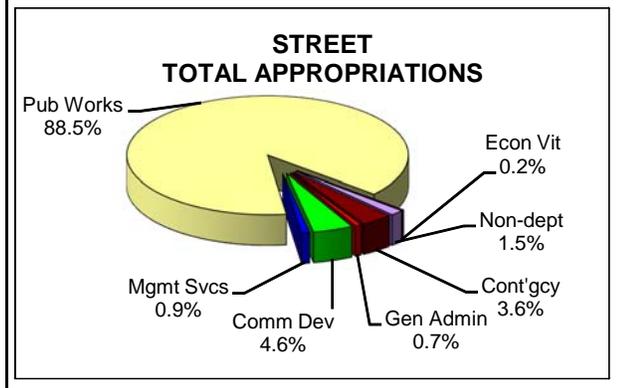
The Highway User Revenue Fund (HURF) is mainly supported by transportation related taxes distributed to the Cities and Counties by the State.

HURF appropriations have been significantly affected due to decreased revenue receipts over the past three years. Revenue has decreased by 28.2% comparing the FY2009 budget to the FY2012 budget.

REVENUES/OTHER RESOURCES	
HURF	\$ 5,800,000
Fund Balance/Misc Rev	1,415,135
Transfers (net)	8,721,333
Interest	7,000
Grants	300,000
	<u>\$ 16,243,468</u>



APPROPRIATIONS	
General Administration	\$ 108,282
Community Development	678,205
Management Services	138,296
Public Works	13,176,938
Economic Vitality	29,053
Non-departmental	226,418
Contingency	525,000
	<u>\$ 14,882,192</u>



Appropriations total \$14.9 million in FY 2012 and major projects budgeted include the annual pavement maintenance program, Beulah Blvd., Bike/Ped and Safety Improvements, and West Arrowhead Improvements. However, a number of projects have been delayed or eliminated to balance this fund.

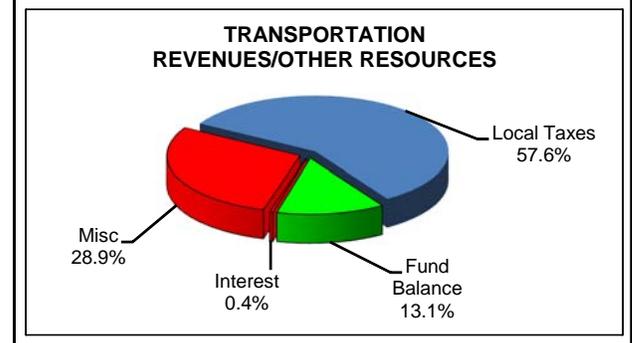
TRANSPORTATION FUND

The Transportation Fund was formed in FY 2001 as a result of voter authorization on May 16, 2000 to increase sales taxes to support four transportation issues. The tax increase is valid for twenty years. The Sales Tax revenue collected for transportation is recorded in this fund. The expenditures related to Transit and 4th Street Overpass are appropriated in this fund. Expenditures related to Safety Improvements and Street Improvements are accounted for in the HURF and Beautification funds. Appropriate transfers are made to fund the various projects that this tax supports.

Projects	Budget FY 2012	
	Revenues	
4th Street Overpass	\$	2,215,851
Safe-to-School, Pedestrian and Bike		1,107,926
Traffic Flow and Safety Improvements		2,575,927
Transit Service Enhancements		4,085,477
Totals	<u>\$</u>	<u>9,985,181</u>

Appropriations total \$7.6 million in FY 2012. Appropriations are comprised of \$5.3 million for transit operations, and \$2.3 million for debt service. Transfers include \$6.0 million to the HURF Fund for Safety and Street Improvements and \$504,000 to fund FUTS projects in Beautification. The tax rate for transportation is 0.721%.

REVENUES/OTHER RESOURCES	
Local Taxes	\$ 9,985,181
Fund Balance	2,272,936
Interest	66,000
Miscellaneous	5,000,000
	<u>\$ 17,324,117</u>

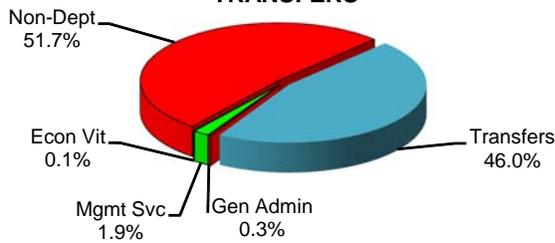


This fund has also experienced significant declines due to the reduction in sales tax receipts. Projects have been delayed or eliminated to balance the budget. This fund is now beginning to start to see an upward swing in tax collections.

APPROPRIATIONS/TRANSFERS

General Administration	\$ 46,278
Management Services	266,540
Economic Vitality	10,449
Non-Departmental	7,272,376
Transfers (net)	6,480,656
	<u>\$ 14,076,299</u>

**TRANSPORTATION
TOTAL APPROPRIATIONS/
TRANSFERS**



LIBRARY FUND

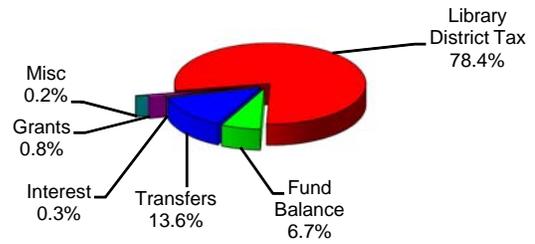
The City operates a joint City-County Public Library with auxiliary programs in outlying county locations and bookmobile services. \$6.3 million of the funding for library operations comes from the library district tax.

During 1997, the County, in concert with the affected entities throughout, developed a new funding formula for the distribution of the tax. The formula provides a base amount for all entities. Any adjustments to this base is directed by the Library Council with affirmation by the County Board of Supervisors.

REVENUES/OTHER RESOURCES

Library District Tax	\$ 6,330,598
Fund Balance	540,180
Transfers (net)	1,094,960
Interest	27,115
Grants	62,400
Miscellaneous	20,474
	<u>\$ 8,075,727</u>

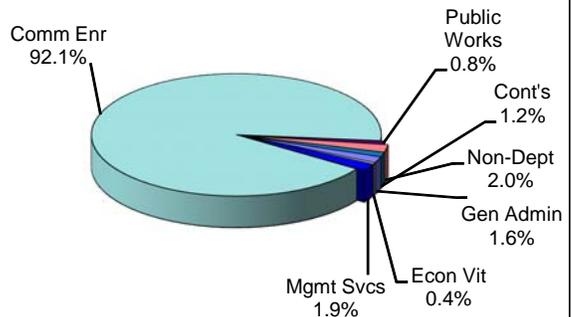
**LIBRARY
REVENUES/OTHER RESOURCES**



APPROPRIATIONS

General Admin	\$ 124,645
Economic Vitality	27,622
Management Services	150,648
Community Enrichment	7,175,267
Public Works	58,909
Non-Departmental	152,196
Contingencies	100,000
	<u>\$ 7,789,287</u>

**LIBRARY
TOTAL APPROPRIATIONS**



BBB FUNDS

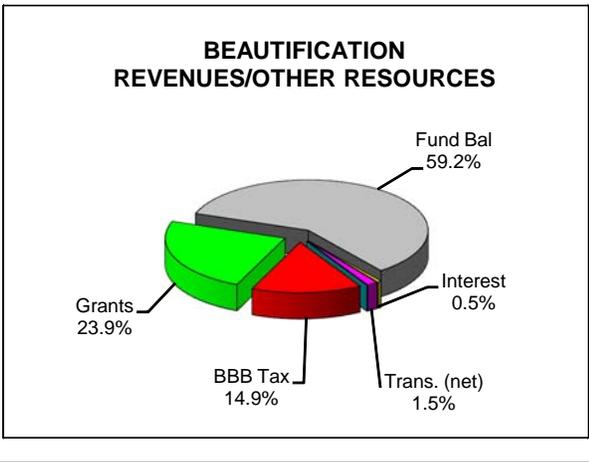
A dedicated 2% Bed, Board and Booze sales tax collected on the services provided by lodging, restaurants and bars, was approved by voters in 1988 with a sunset clause in 10 years and extended by the voters for 15 years in the 1996 and again in the 2010 general election. The BBB tax approved by voters will expire in 2028. The funds were allocated into the following percentages:

Economic Development	9.5%
Beautification	20.0%
Tourism	30.0%
Recreation	33.0%
Arts & Science	7.5%

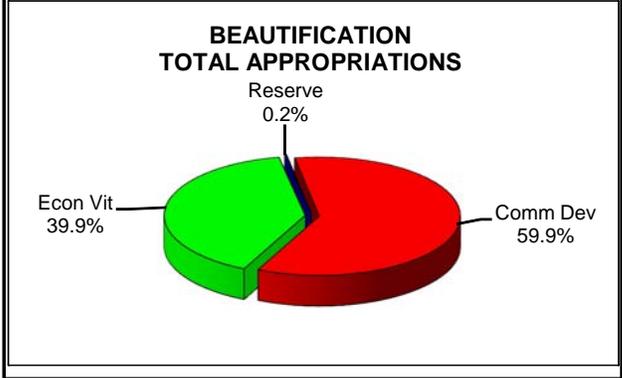
Revenue for FY 2012 is projected with 0.9% growth over 2011 year end estimates and FY2011 receipts are 6.9% over budget. Activities funded with the revenues have made operating adjustments necessary to reflect a balanced budget to the increased sales tax receipts and these changes will be reflected within each five-year plan.

Beautification Fund: Total resources available for Beautification Fund activities amount to \$6.0 million including carryovers and approved grants. Expenditures from this fund are primarily for capital improvements. (See the CIP Section for project list.)

REVENUES/OTHER RESOURCES	
BBB Tax	\$ 1,061,468
Grants	1,702,949
Fund Balance	4,223,882
Interest	37,440
Transfers (net)	106,799
	<u>\$ 7,132,538</u>



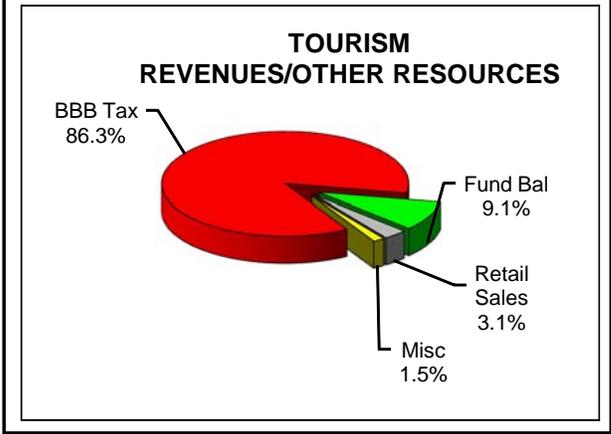
APPROPRIATIONS	
Community Development	\$ 3,578,560
Economic Vitality	2,382,119
Reserve	10,000
	<u>\$ 5,970,679</u>



Tourism Fund: Total resources available in FY 2012 are \$1.8 million. The total appropriations are \$1.6 million, which include \$1.2 million for Tourism. Tourism includes General Administration, Marketing, Sales, Public Relations, Film Office, and Economic Stimulus Advertising. The Visitors Center programs account for \$310,000. In addition, there is a \$50,000 reserve for contingencies.

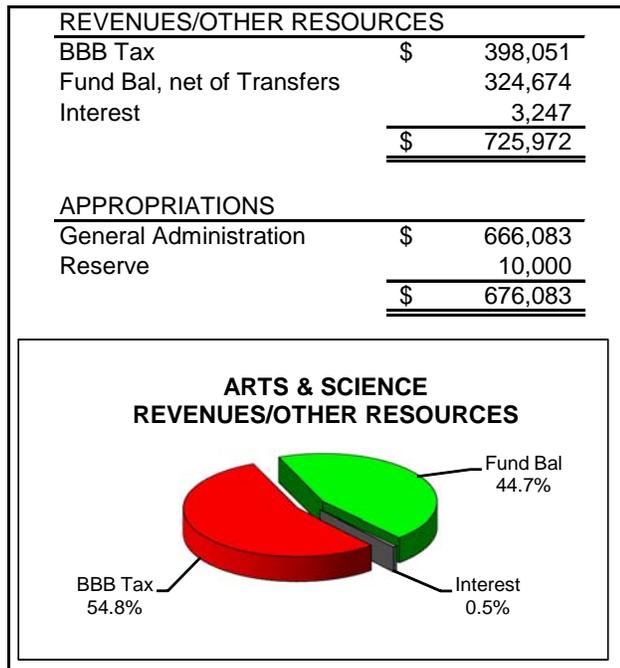
REVENUES/OTHER RESOURCES	
BBB Tax	\$ 1,592,202
Fund Bal (Net of Transfers)	167,554
Retail Sales	57,750
Miscellaneous	27,661
	<u>\$ 1,845,167</u>

APPROPRIATIONS	
Economic Vitality	\$ 1,559,757
Reserve	50,000
	<u>\$ 1,609,757</u>

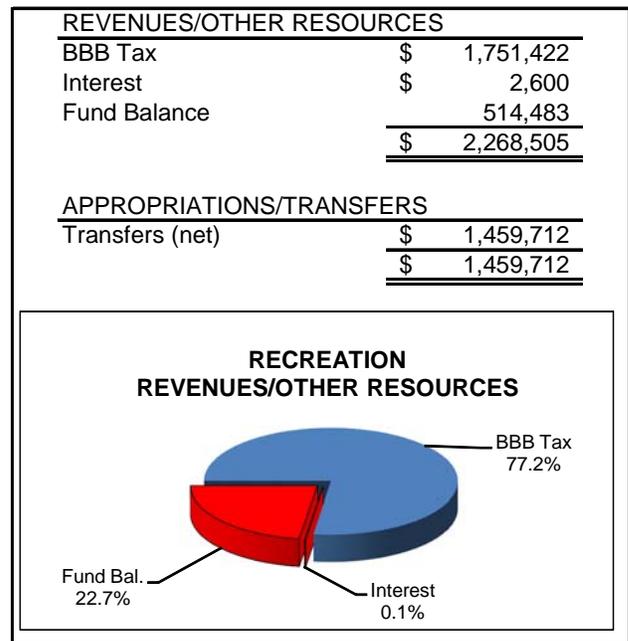


Included in the budget for Tourism is a strategic plan intended to provide guidance in determining markets, promotion directed at these markets, and measurement tools. The Visitor Center programs include the Train Station Operations and General Administration.

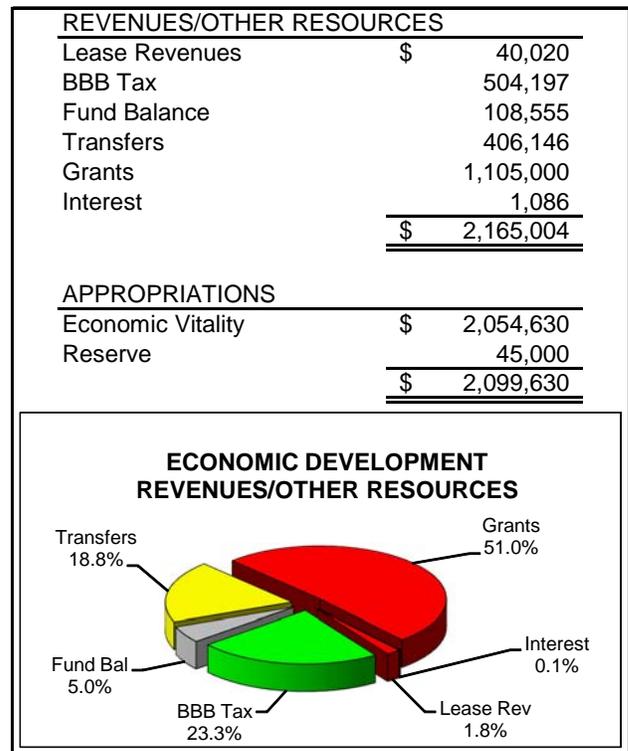
Arts & Science Fund: Total resources available for Arts & Science activities are \$725,972 including estimated revenues from the BBB tax of \$398,051. Expenditures include: General Operating and BPAC of \$1,025, Public Art for \$282,233, FCP Administration, and Grants to Other Agencies of \$382,825 totaling \$666,083. In addition, there is a \$10,000 reserve for contingencies.



Recreation Fund: There are no appropriations in FY 2012 for Recreation Fund activities. Per discussion with City Council in the Spring 1996 retreat, Council concluded this funding should support the expansion of existing facilities and the associated maintenance. Due to the recent recession, City Council has reexamined the use of these funds and has now redirected \$200,000 for FY 2012 to fund recreational programming via a transfer to the General Fund.



Economic Development Fund: This fund continues to focus on business retention and attraction as well as workforce development. In addition, the City funds the business incubation program, structured to allow university professors and local entrepreneurs to work in a supportive environment to develop ideas into commercial business models.



The City will continue to seek targeted industries to relocate to the community. Those industries will be complementary to existing businesses or will be

supportive of community goals such as clean energy, sustainability or BioScience. Total resources allocated to this effort are \$2.1 million, of which \$1,105,000 is Grant Revenue, with all monies from BBB dedicated tax for economic development including a general fund contribution of \$389,000 to support the business incubator operations and debt service.

OTHER FUNDS

Metropolitan Planning Organization Fund: This fund was established to account for funding derived from the area's status as a designated Metropolitan Planning Organization (MPO). The MPO receives Federal funding administered through the Arizona Department of Transportation (ADOT).

The MPO has appropriated \$573,949 for this program for FY 2012. This includes operating funds for transportation and transit planning. Transit operating funds are not included in this budget since that service is contracted through Coconino County.

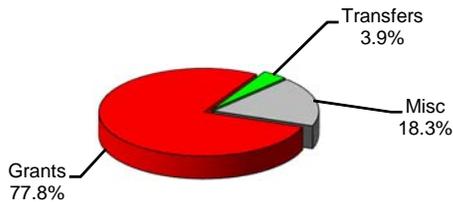
REVENUES/OTHER RESOURCES

Grants	\$	446,456
Transfers		22,493
Miscellaneous		105,000
	\$	<u>573,949</u>

APPROPRIATIONS

Community Development	\$	447,633
Non-Departmental		26,316
Contingency		100,000
	\$	<u>573,949</u>

MPO REVENUES/OTHER RESOURCES

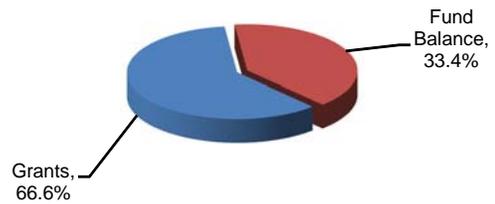


Housing and Community Services Fund: This fund finances activities in conjunction with the CDBG program and affordable housing activities. There is \$2.2 million appropriated to this activity for FY 2012. Expenditures in this fund include \$600,000 in state grants and \$600,000 in CDBG grant activities.

REVENUES/OTHER RESOURCES

Grants	\$	2,277,776
Fund Balance		1,512,887
	\$	<u>3,790,663</u>

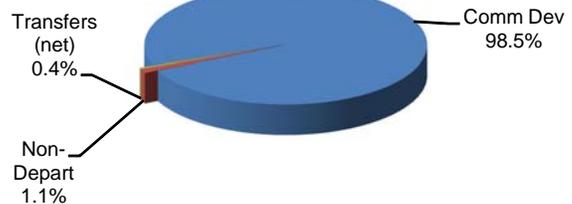
HOUSING AND COMMUNITY SERVICES REVENUES/OTHER RESOURCES



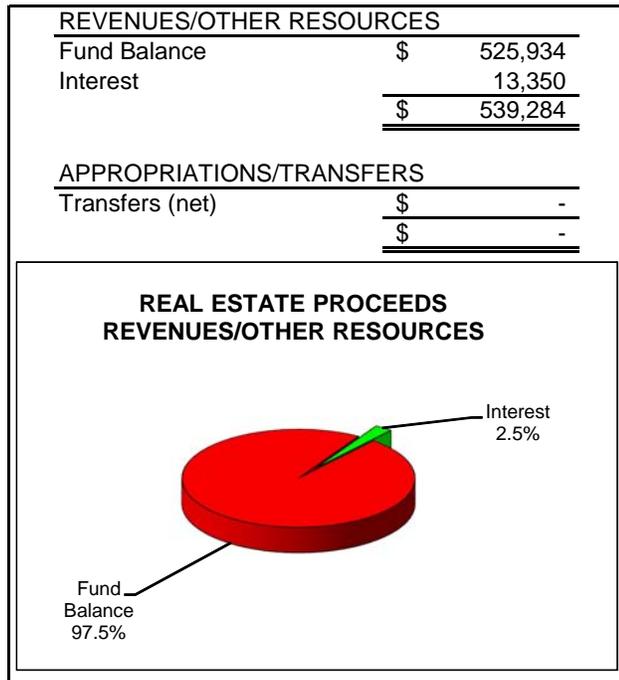
APPROPRIATIONS/TRANSFERS

Community Development	\$	3,229,861
Non-Departmental	\$	37,436
Transfers (net)		14,000
	\$	<u>3,281,297</u>

HOUSING AND COMMUNITY SERVICES TOTAL APPROPRIATIONS/ TRANSFERS



Real Estate Proceeds: The Real Estate Proceeds fund is currently restricted to the purchase of real estate. There is no projected activity for FY 2012.

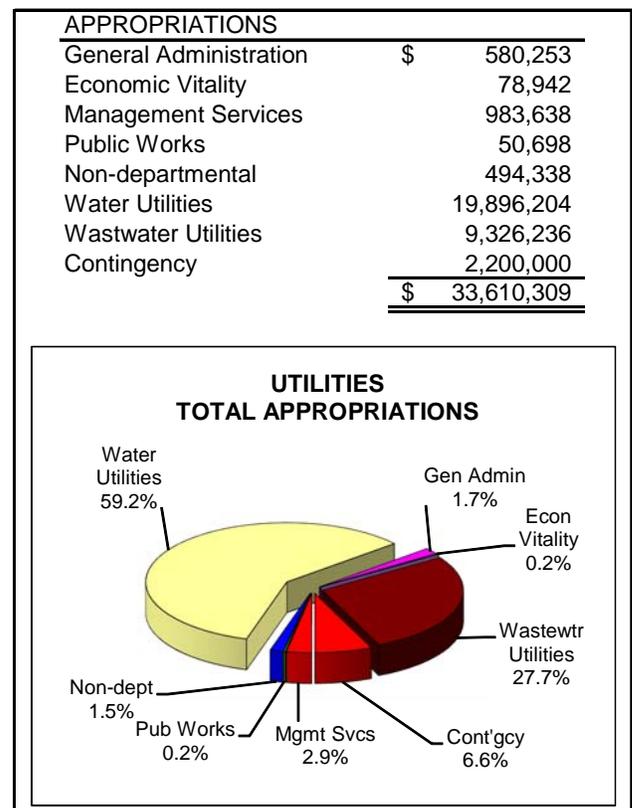
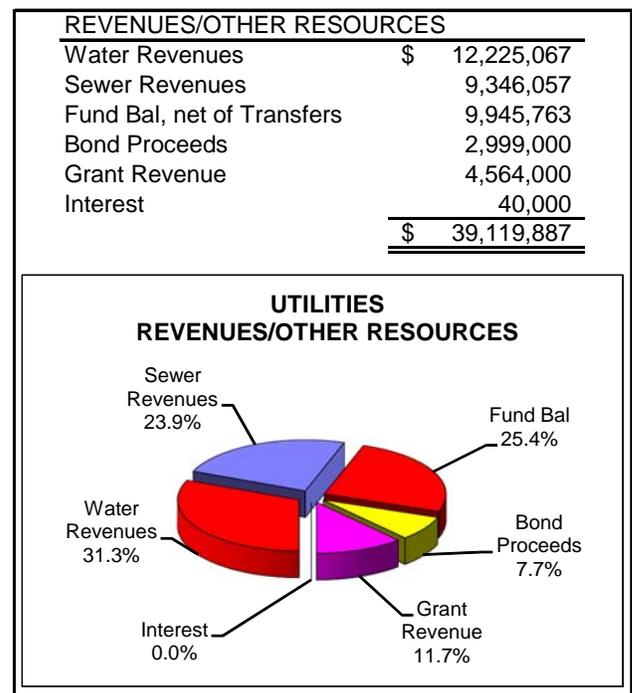


ENTERPRISE FUNDS

UTILITIES FUND

The City's water and wastewater operations are operated as an Enterprise Fund activity, i.e., self-sustaining operations with user fees and charges based on a "cost-of-service" methodology. The rate model determines the minimum revenue requirements needed to support operations including: all operating and maintenance costs; capital improvements considered routine in nature; principal and interest payments on bonded debt related to utility construction; and maintaining a year-end fund balance sufficient to ensure adequate working capital. Total appropriations for the Utilities Fund are \$33.6 million. Resources include \$12.2 million in water revenues and \$9.3 million in sewer revenues.

The City contracted for a rate model update in FY 2010 which identified a need to increase water and wastewater rates. This was presented to Council in the fall of 2010 and approved for rate increases beginning January 1, 2011. There are annual increases for the next 5 years.



Water Operations: Total appropriations relating to direct costs for the water operations are \$19.9 million. Water fees are the major source of revenue supporting water operations. Bond funds support well development and future water rights. Revenue estimates total \$12.2 million for water sales.

Wastewater Operations: Total appropriations relating to the direct costs for the wastewater operations are \$9.3 million. Wastewater (sewer) fees are the major source of revenue supporting wastewater operations. Revenue estimates total \$9.3 million in wastewater service charges.

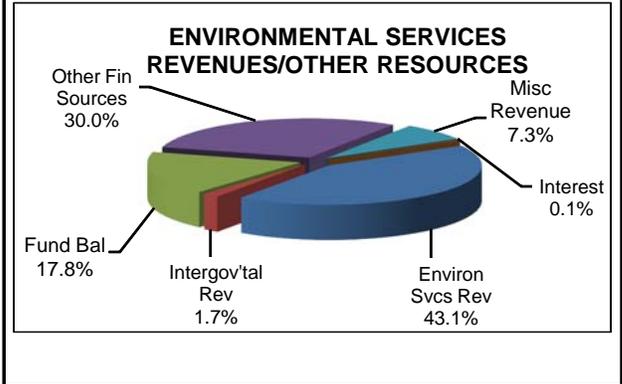
ENVIRONMENTAL SERVICES FUND

Total financial resources are \$27.3 million. User fees are the major revenue source of solid waste disposal operations. The user fees are comprised of eight major customer services areas (residential sanitation, curbside recycling, commercial sanitation, hoist and haul, landfill dumping, inert materials pit, and commercial recycling) with different rates for each category based on cost of service.

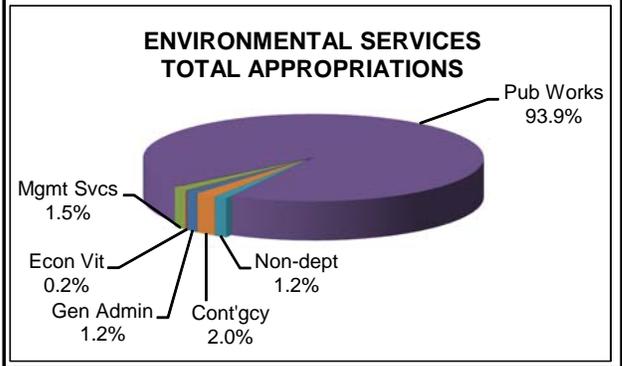
User fees are the major revenue source of sustainability and environmental management operations. The user fee is the environmental fee that is based on the cost of service. Currently, this revenue does not recover the cost of service. This shortage is funded by the solid waste division.

The existing landfill rate structure provides cost recovery for ongoing operations as well as provisions for funding replacement equipment; closure and regulatory compliance costs related to mitigation of environmental contamination and/or degradation; as well as for future site requirements. Based on current estimates for closure and post-closure landfill costs, the City is setting aside legally restricted funds to insure sufficient funds will be available to meet these requirements.

REVENUES/OTHER RESOURCES	
Environmental Svcs Revenue	\$ 11,766,083
Intergovernmental Revenues	472,710
Fund Bal, net of Transfers	4,869,429
Other Financing Sources	8,200,000
Miscellaneous Revenues	2,000,000
Interest	36,900
	<u>\$ 27,345,122</u>



APPROPRIATIONS	
General Administration	\$ 311,071
Economic Vitality	60,269
Management Services	373,062
Public Works	23,819,844
Non-departmental	297,412
Contingency	500,000
	<u>\$ 25,361,658</u>

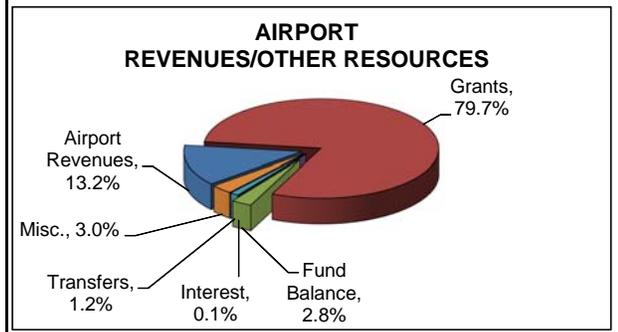


AIRPORT FUND

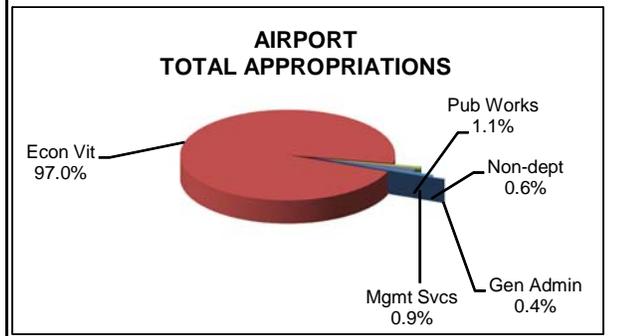
Pulliam Airport is located four miles south of downtown Flagstaff and is staffed seventeen hours per day, seven days each week and provides airline service to Phoenix. Total appropriations are \$11.5 million: \$2.1 million for operations, \$0.3 million for debt and \$9.1 million in capital outlay. Primarily FAA and ADOT grants will fund the capital improvements.

This year, of the \$9.1 million in capital improvements, 96% are being funded by the FAA and ADOT.

REVENUES/OTHER RESOURCES	
Airport Revenues	\$ 1,547,201
Grants	9,360,284
Fund Balance	323,291
Interest	6,466
Transfers (net)	137,433
Miscellaneous	360,225
	<u>\$ 11,734,900</u>



APPROPRIATIONS	
General Administration	\$ 51,062
Economic Vitality	11,117,686
Management Services	99,735
Public Works	127,108
Non-departmental	70,048
	<u>\$ 11,465,639</u>

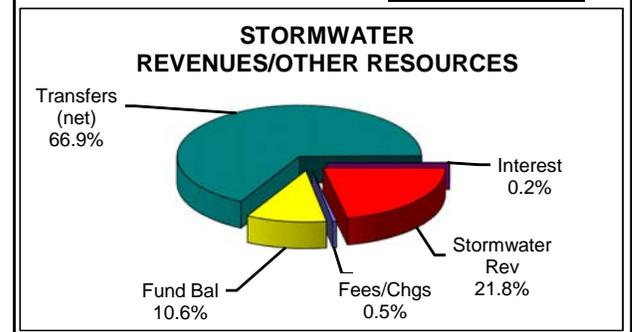


STORMWATER FUND

The Stormwater fund was initiated as a response to enhanced NPDES stormwater requirements affecting all communities with populations greater than 50,000 as of March 2003. The City of Flagstaff worked with consultants to design a program that met current minimum NPDES standards. Stormwater fees to both residential and commercial customers are stepped based on every 1,500 sq. ft. of impervious area. A rate increase was approved in FY 2010 to \$1.30 per Equivalent Rate Unit (ERU). June 1, 2010 was the last scheduled increase. An ERU is 1,500 sq. feet of impervious area.

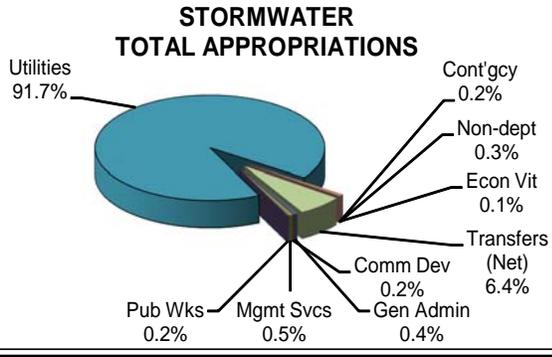
Total revenues/other resources of \$6.4 million include a transfer of \$4.3 million from the general fund for the Rio de Flag project. Total appropriations of \$6.0 million include the operational components of NPDES implementation, general drainage maintenance, and the Rio de Flag including related parking.

REVENUES/OTHER RESOURCES	
Stormwater Revenues	\$ 1,414,390
Fees & Charges	30,502
Fund Balance	686,799
Transfers (net)	4,335,981
Interest	13,736
	<u>\$ 6,481,408</u>



APPROPRIATIONS

General Admin	\$	23,401
Community Development		19,762
Management Services		30,331
Public Works		12,249
Utilities		5,533,132
Non-departmental		17,545
Economic Vitality		4,813
Contingency		10,000
Tranfers(net)		384,461
	\$	<u>6,035,694</u>



FIVE-YEAR PROJECTIONS BY FUND

The City updates five-year plans annually during the budget process. These plans are an important tool to continue our emphasis on strategic planning and to identify the capacity of the City to fund projected expenditures. Revenue and resource estimates are based on the latest available economic and demographic trend information. All significant revenue and expenditure issues have been incorporated into the projections including local and state revenue trends, compensation, and the operational impact of capital projects. The projections are not intended to be an exact prediction of what each department will spend in the next five years.

The policy of the City is to match ongoing expenditures with ongoing revenues. This policy is to assure that the funds have adequate revenues to support the continued operations. Several funds will use one-time revenues and fund balance to pay for capital equipment, capital improvements, and other types of one-time expenditures. Generally when you see major fluctuation in fund balance from beginning to ending, the change is related to carryover for capital projects and/or budgeting of such items. Funds such as the General, Highway User, Transportation, Beautification, BBB-Recreation, Real Estate Proceeds, Housing and Community Services, Capital Projects Bond Funds rely heavily on these one-time expenditure commitments.

The preparation of the five-year plan is a cooperative effort between division heads, section heads, and budget staff to assure projections are based in current program needs and revenue estimates are achievable.

The five-year projections are located in the Financial Summary section, Schedule 11. The following narratives present the highlight of the forecasts by funds and estimated change in fund balance for the coming fiscal year:

GENERAL

The primary purpose of the General Fund five-year projections is to assure that ongoing revenues are meeting or exceeding ongoing expenditures. Ongoing expenditures include normal operating expenditures, debt service, fleet replacements, information system replacement and upgrades, an allocation for capital, and projected changes in personnel. As financial conditions change in the City, the five-year projections are continually updated to balance the ongoing sources and uses of funds.

The General Fund balance decreases by 59% as the City is currently funding several projects with fund balance and non-recurring revenues. Such projects include redevelopment, an updated land development code and Rio de Flag flood control.

LIBRARY

The five-year plan for Library shows the ability to fund ongoing operations costs with funding from the City, through revenue transfers, and the County, through Library District Taxes. The Library fund balance decreases by 47% due to planned expenditures at both the branch and the affiliate libraries. Library district tax revenues decreased by approximately 10% due to declining area property values.

HIGHWAY USER

This fund is devoted to the maintenance, improvement, and construction of street related items. The fund first matches ongoing revenues with ongoing maintenance and then plans out the capital equipment and improvements. Several capital improvements include portions that are funded through revenue transfers from other funds. The five-year plan shows the ability to balance ongoing and one-time expenditures while maintaining an adequate fund balance. The HURF fund balance decreases by 8% due to planned expenditures for the completion of various capital projects and decreased HURF revenue projections.

TRANSPORTATION

The Transportation Fund is used to track revenues and expenditures related to a dedicated sales tax approved by voters. The construction of the 4th Street Overpass was completed in FY 2007. The ongoing funding of the transit system is operated by the NAIPTA. Other projects are funded through revenue transfers to the fund where the projects are budgeted. In 2008, voters approved a rate increase for transit services for a new rate of 0.721%. The fund balance increase of 43% is substantially due to projected 4th Street land sales.

BEAUTIFICATION

The primary sources for this fund include BBB taxes, grants, and revenue transfers. This fund primarily accounts for capital projects related to FUTS and Streetscapes. It is an ongoing effort to balance the amount of projects within the availability of revenues. This five-year plan shows how it is accomplished. The Beautification fund balance decreases by 72% due to planned expenditures for the completion of various capital projects.

ECONOMIC DEVELOPMENT

This fund is balanced with ongoing revenues from BBB taxes and General Fund transfers. Ongoing expenditures support a number of efforts focused on business attraction, retention, work force development, and the business incubator. The Economic Development Fund Balance decreased by 40% in 2012 due to combined effects of a reduced General Fund transfer, increase in fund reserve, increase in planned expenditures over revenues, and increased debt service. In addition, the Incubator Lease was restructured, affecting the revenues and expenditures for that program.

TOURISM

This fund is balanced with ongoing revenues from BBB taxes and ongoing expenditures related to tourism promotion and visitor center services. Based on projected revenue, this fund can maintain existing operations levels. The Tourism fund balance increased 29% due to projected increases in the BBB revenue while restructuring expenditures within its program to best meet the service and needs of the public and the City.

ARTS AND SCIENCE

This fund is balanced with ongoing revenues from BBB taxes and ongoing expenditures related to contributions to agencies for projects related to awareness of arts and science in our community. Though BBB revenues increase in FY-2012, the Arts and Science fund balance decreased by 85% due to planned expenditures for public art.

RECREATION-BBB

This fund is used for capital improvements to City and school recreational parks and fields. In addition, maintenance costs related to the improved parks and fields, maintenance of FUTS trails, debt service of bonds issued for improvements, and a transfer for construction of new FUTS trails are funded with ongoing revenues. The Recreation – BBB fund balance increased by 57% as the fund begins to accumulate reserves for new capital projects.

REAL ESTATE PROCEEDS

This fund is used for one-time revenues and expenditures related to sale and acquisition of property. As the City sells additional properties, those funds will be restricted for a similar purchase of land as intended with the original land acquisition. The Real Estate Proceed fund balance increases by 3% due to anticipated interest earnings.

HOUSING AND COMMUNITY SERVICES

This fund is primarily used to track revenues and expenditures related to Community Development Block Grants and other housing grants. The block grants are an entitlement to the City and are expected to stay level over the next 5 years. The City currently expects to receive State housing grants every year. The Housing and Community Services fund balance decreased by 66% due to a reduction in beginning fund balance from FY-11 and planned expenditures.

METROPOLITAN PLANNING ORGANIZATION

This fund is solely used for transportation planning grants. It is currently estimated that grant revenues will remain consistent throughout the next five years. Some work is performed for internal customers and allocated through charge-outs.

GENERAL OBLIGATION BOND

This fund is used to track the debt service payments on General Obligation Bonds. This five-year plan shows the City is meeting the requirements for future debt service payments.

SECONDARY PROPERTY TAX

This fund is used for tracking of secondary property tax revenue and the subsequent transfer to other funds to make debt service requirements. The five-year projection uses the current assessed valuation figures from the county to estimate property taxes that will be available for debt service expenditures. The projection assumes additional voter authorization will be issued in the future within the

existing tax rate. This allows the City to smooth long-term secondary property tax rates so a level tax rate is maintained from year to year. The Secondary Property tax fund balance decreased by 10% due to the planned issuance of debt.

SPECIAL ASSESSMENT BOND

This fund is set up for repayment of bonds issued for special assessment districts. The Special Assessment Bond fund balance decreased due to the related decrease in investment income.

PERPETUAL CARE

This fund is currently used for the tracking of contributions related to long-term maintenance at the City owned cemetery. The fund balance increases by 12% as the fund contributions increased and expenditures will not be budgeted until there is adequate fund balance.

CAPITAL PROJECTS BOND

This fund is used to track the revenues and expenditures of the voter approved bond eligible projects. In May of 2004, the voters of Flagstaff approved ten projects. In November 2010, the citizens of the City of Flagstaff approved two projects. Projects/bond sales are scheduled to coincide with the retirement of other debt so the overall secondary property tax rate does not increase. This fund currently has two components:

1. The Municipal Facilities Corp fund balance increases by 107,628% due to the timing of MFC proceeds.
2. The GO Bond Funded Projects fund balance decreases by 31% due to the timing of capital projects.

WATER AND WASTEWATER

As a City enterprise fund, this fund is managed on a self-sustaining basis. The five-year projections show that ongoing expenditures, capital improvements, and debt service requirements are being met with user fees, fund balance, grants, bonds, and interest earnings. In addition to the five-year projections, the City uses a rate model to balance future operations and capital requirements with anticipated revenues over a ten-year period. The Water and Wastewater fund balance decreases by 43% due to the planned completion of capital projects.

AIRPORT

This fund is responsible for the operations at Flagstaff Pulliam Airport. The majority of future revenues are grants related to continued expansion and capital improvements at the airport. A second airline began service June, 2008 and withdrew in July, 2010, despite being a economically viable location. The City is pursuing grant alternatives to recruit another airline to fill this void. The capital improvement plan is based on annual updates to ADOT and FAA. The City General Fund currently makes a transfer to the Airport Fund to cover the match portion of capital grants awarded. The Airport fund balance decreases by 17% due to planned capital expenditures.

ENVIRONMENTAL SERVICES

This enterprise fund is self-sustaining through user fees. The five-year projection anticipates a rate escalator of five percent per year over the next year. This coincides with on-going operations; capital needs, and revised service levels for all operations. Included in the five-year projection is the anticipated funding to cover the landfill closure and post-closure costs at the end of the useful life of the landfill, and related increase of user fees that will coincide with the construction of a new cell. The Environmental Services fund balance decreases by 60% to fund anticipated capital expenditures and contingency funding, as well as the shortfall within Sustainability and Environmental Management division.

STORMWATER

This enterprise fund oversees City issues related to drainage and associated federal requirements. Ongoing operating expenditures are paid for with Stormwater revenues and user fees. A rate increase was approved in FY 2007, with annual increases through FY 2011. The rate increase was to self-fund capital improvements and increase inspection efforts as required by NPDES. The Stormwater fund balance decreased 35% due to an increase in transfer to the General Fund and HURF and due to planned capital expenditures.

FLAGSTAFF HOUSING AUTHORITY

While the Flagstaff Housing Authority (FHA) has operated for a number of years, it was recently determined that it should be reported as a distinct City Fund. The FHA manages Housing & Urban Development (HUD) Section 8 and other voucher programs for City residents. The five year plan indicates the majority of funding is grant related and as such, the fund only generally experiences minor fluctuations in fund balance.

REVENUES

Historical Trend Information for Select Revenues

GENERAL FUND

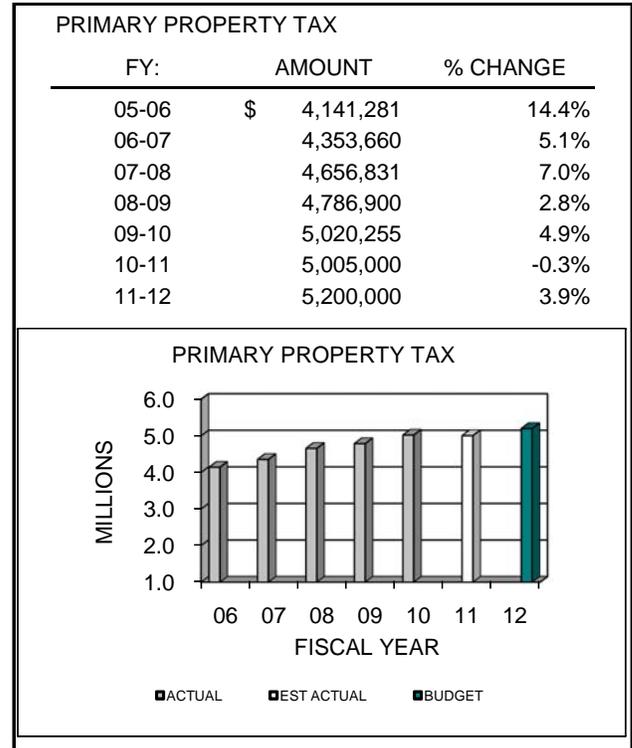
PROPERTY TAX RECEIPTS CURRENT, PRIMARY

Legal Authority: Arizona Revised Statutes Section 42-45 (B) based on the State Constitution Article 9, Section 18. Revised through HB2876, June 2006.

Description: The property tax is levied each year on or before the third Monday in August based on full cash value of the assessed property as determined by the Coconino County Assessors' Office.

Receipts from primary property taxes levied by the City are deposited in the General Fund. No restrictions on usage apply to the primary property tax. State statute limits the annual increase to 2% plus the amount generated by construction. This legal restriction previously had no impact on the City as the City had levied less than 50% of the maximum allowed. For FY 2007, legislation was introduced through an omnibus bill and signed by the governor that changed the base amount to the amount assessed in tax year 2005. This was subsequently approved in the November general election. This change decreased the City's ability to assess property tax dramatically.

Primary property taxes generally change on an annual basis for two reasons: new construction that is added to the tax rolls and the reassessment of existing property. New construction added over \$3 million dollars to the assessed valuation. For FY 2012 existing Primary Property Tax values dropped by 4.5%. This trend is expected to continue for next fiscal year also.



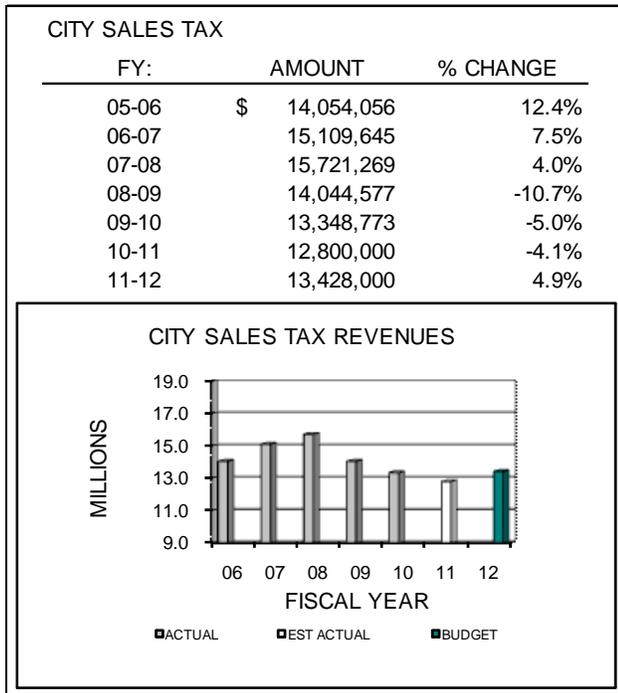
CITY SALES TAX (TRANSACTION PRIVILEGE TAX)

Legal Authority: City Code, Title 3, Chapter 5, (Ordinance 1491)

Tax currently sunsets November 2024.

Description: The single largest revenue source for the City is obtained from a 1% tax on the sales of goods. The sale of food for home consumption is exempted from the tax. Additional sales taxes levies include a 2% tax on hotels, restaurants and bars (BBB Tax) and a 0.721% transportation tax.

These numbers are sales tax revenues only; audit assessments and penalty and interest revenues are combined with these numbers on Schedule 3. The decrease in revenues for FY 2010 and FY 2011 was driven by decreases in construction, tourism, and retail sales. Revenue projections in these three categories remains weak for FY 2012, however, there are initial signs of recovery as these categories have shown positive growth in the last quarter of calendar year 2010. The large increase in FY 2012 is driven through the approval of a revised franchise agreement that now allows for the collection of both a franchise tax and sales tax.

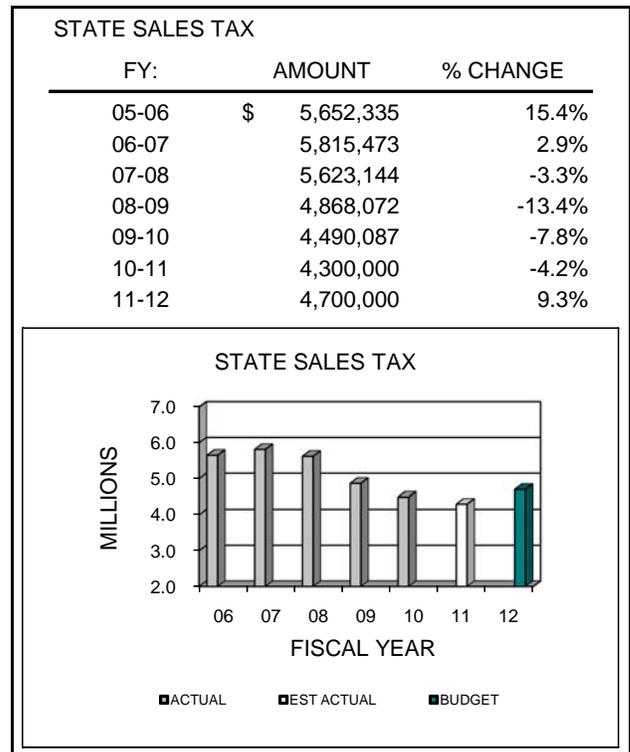


STATE SALES TAX

Legal Authority: Arizona Revised Statutes Section 42 - 1341 (D)

Description: A half-cent (.5%) portion of the five-cent (5%) State Sales Tax collected is divided among the State's cities and towns based on population. These revenues can be used for any municipal purpose and, therefore, are deposited in the General Fund to support activities and services provided by the general government.

The sales tax revenues estimated for FY 2010, 2011 and 2012 reflect the economic downturn at the state level due to the declines in residential construction, retail, auto sales, and tourism. While recovery is anticipated to begin in FY 2012, the city is choosing to continue to budget conservatively as the State of Arizona has not yet balanced its' budget. FY 2012 is experiencing an increase due to the shift in Arizona state population. The City of Flagstaff is now 1.31% of the state population, up from 1.25%, which directed additional funds to the City from state shared resources.

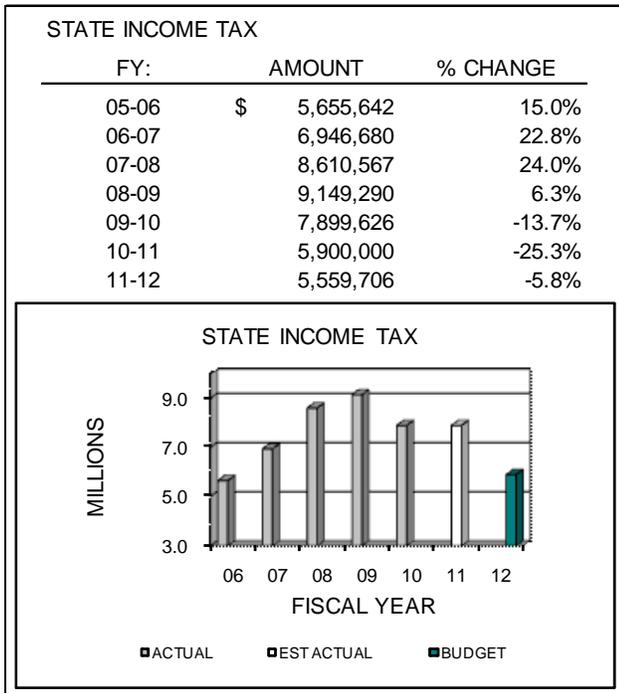


STATE INCOME TAX (REVENUE SHARING)

Legal Authority: Arizona Revised Statutes Section 43 - 244 (B)

Description: The City shares in 15.8% of the State income tax collected based on the population of the cities and towns as reported in the 2010 Census and adjusted by the annual DES POPTAC estimates. A two-year lag exists between the year of distribution and collection and the reporting year for which the income tax returns are filed. Therefore, little variance is expected between amounts estimated in the budget and actual receipts. Because revenues can be used for any municipal purpose, funds received are deposited in the General Fund to support the services and activities of the general government.

FY 2010 experienced a large decrease as the State received less revenue from income tax than previously estimated. All cities have received a proportionate decrease. The large decrease in FY 2011 is driven by a reduction in the income tax rate coupled with decreased corporate and personal income tax revenue. The continued decrease in FY 2012 is driven by continued declined revenues associated with the recession. This decline for the City was somewhat mitigated in that the City of Flagstaff gained relative population share as a result of the 2010 Census. The City's population share within the State of Arizona grew from 1.25% to 1.31% which increases the local allocation of this revenue.



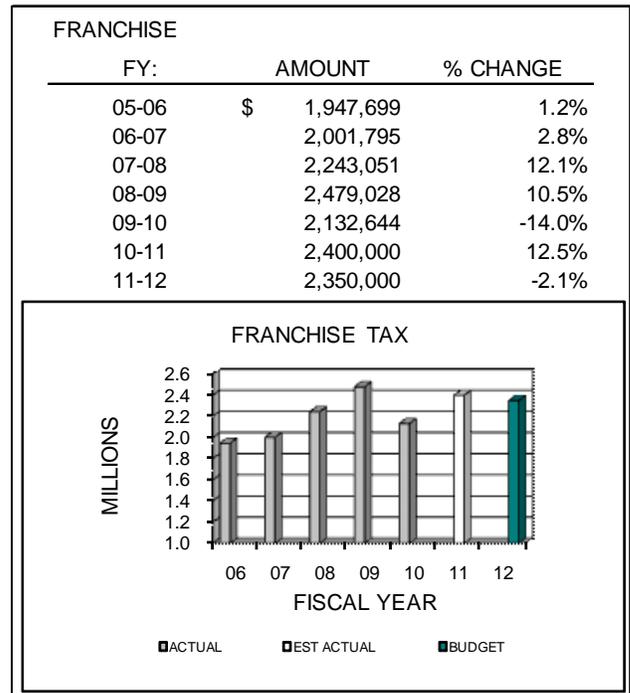
FRANCHISE TAX

Legal Authority: Flagstaff Charter and City Code Article XII

Arizona Public Service (APS): Resolution 2009-52 (expires 8-21-2036), UniSource Energy Services: Ordinance 1879 (expires 10-3-2020), US West, MCI, US Sprint, Central Corp, and A T & T: Ordinance 585. NPG: Resolution 2006-72 (expires 12-31-2016).

Description: A 2% tax from utility companies--Arizona Public Service and UniSource-is credited to this account. The City also receives a franchise tax from Qwest Telephone Co., AT & T, NPG Cable, MCI, US Sprint, and Central Corp; these entities are currently taxed at 2%, except NPG Cable that is taxed at 5%.

Franchise tax declined in FY 2010 as one entity mis-reported their revenues and a prior period credit was processed. FY 2011 represents normalized revenues. There is a slight increase anticipated for FY 2012 as the new APS franchise agreement allows for the inclusion of industrial customers.



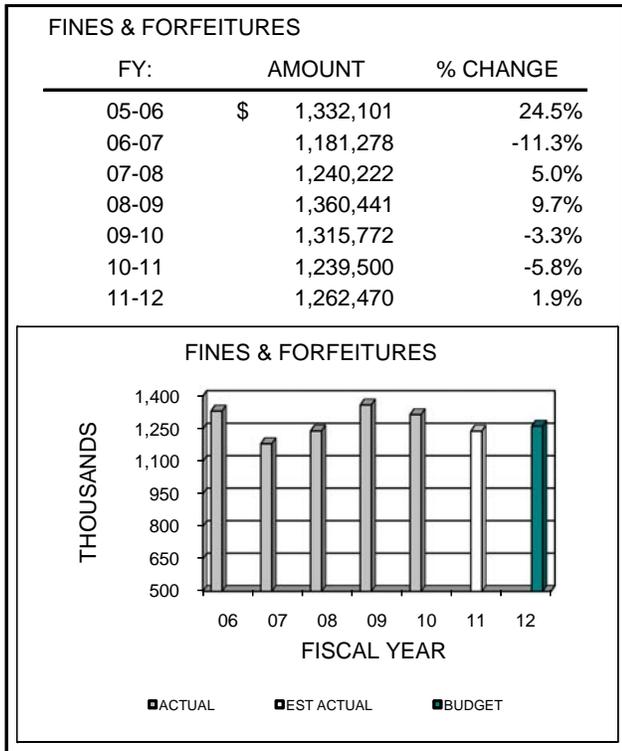
FINES & FORFEITURES

Legal Authority: Arizona Revised Statutes, Rules of Criminal Procedure
 City Code, Title 1, Chapter 15, Section 8

Description: Revenues are derived from a multitude of fines and forfeitures that relate to fines ordered by the court magistrates and administrative charges for Traffic School. Other miscellaneous fees allowed include court reimbursements and court collection fees.

In FY 2006 the FARE program was started which boosted overall revenues. Revenues vary on an annual basis dependent on the mix of criminal and civil cases handled by the court system in any particular year.

The current year increase is anticipated due to the shift of certain cases from the County to the Municipal Court for adjudication.

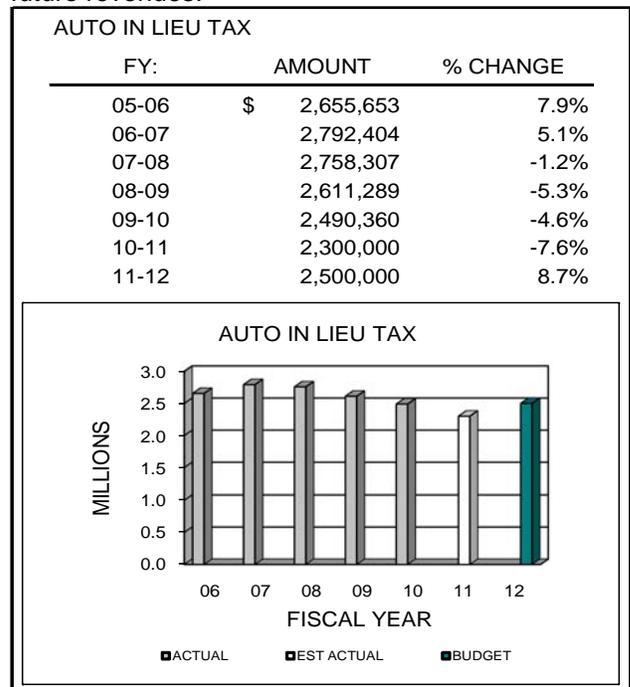


AUTO IN LIEU TAX

Legal Authority: Arizona Revised Statutes Section 28 - 1591 (c)

Description: Twenty-five (25) percent of the net receipts from vehicle licensing collected by the State is returned to the cities and towns of licensing origin. The distribution is based on population in proportion to total population in incorporated areas. This revenue source can be used for any municipal purpose; therefore, revenues are deposited in the General Fund to support services and activities of the general government.

Revenues had been steadily increasing due to the sales boosts in auto sales due to 0% financing and other offered incentives. Collections began normalizing in 2008. Collections decreased in 2009 and has continued due to the severe slump in the auto industry. Auto in Lieu tax is received on a declining scale over a 5-year period based on the automobile value until it stabilizes at the depreciated amount. As fewer new vehicles have entered the grid, overall revenue decreased. Even with the opening of the Auto Mall and a local sales tax rebate for energy efficient cars, revenues continued to decline for FY 2010 and continued for FY 2011. In addition, the State of Arizona allows for multiple year payment, all of which is distributed at time of receipt. As more people pay their registrations in advance, fewer dollars will come in during the out years. There is no analysis available from the State to analyze or predict how many or what proportion of vehicle license taxes are prepaid to project the impact on future revenues.



SPECIAL REVENUE FUNDS

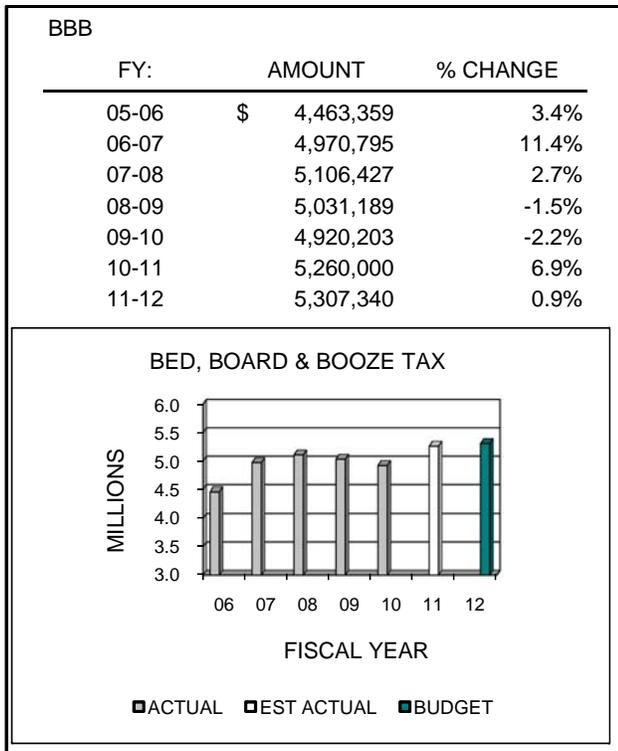
BBB FUNDS

BED, BOARD & BOOZE TAX

Legal Authority: Ordinance 1902, Reauthorized by voters May 2010, extended by vote to March 31, 2028.

Description: An additional city sales tax of 2% is charged on the services of hotels, restaurants and bars. The City has designated all of these revenues for the purposes of enhancing beautification, tourism, economic development, recreation, and arts & sciences.

With the economy now stabilizing, FY 2011 is showing an increase over the prior years downward trend. FY 2012 shows an increase of 0.9% as tourism in Northern Arizona is projected to continue its growth.



HIGHWAY USER REVENUE FUND

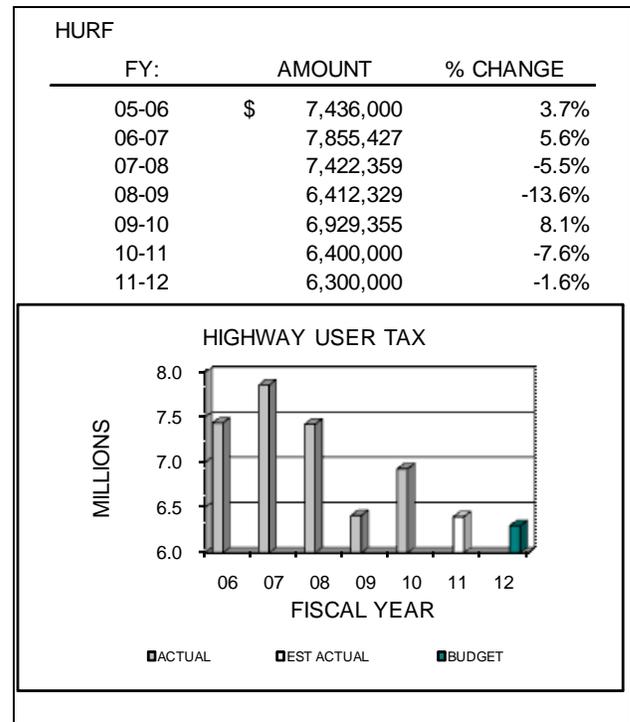
HIGHWAY USER TAX

Legal Authority: Arizona Revised Statutes Section 28 - 1598 (B.4), (For method of distribution see ARS 28-1598 (D.3))

Description: The proceeds from the State-shared motor vehicle fuel tax (currently 16 cents per gallon, of which cities and towns share in 13 cents per gallon) are distributed by the State to cities and towns by a compromise formula. Fifty percent of the distribution is based on point of origin for the sale of gasoline. The remaining fifty percent is based on population in proportion to total population for incorporated towns and cities.

The large decrease in FY2009 is due to State appropriation for Department of Public Safety Services (DPS) and decreased sales due to record gas prices.

The City expects a decrease in HURF revenues in FY-2012 based on projections provided by the Arizona Department of Transportation due to additional state shared revenue sweeps by the State of Arizona.

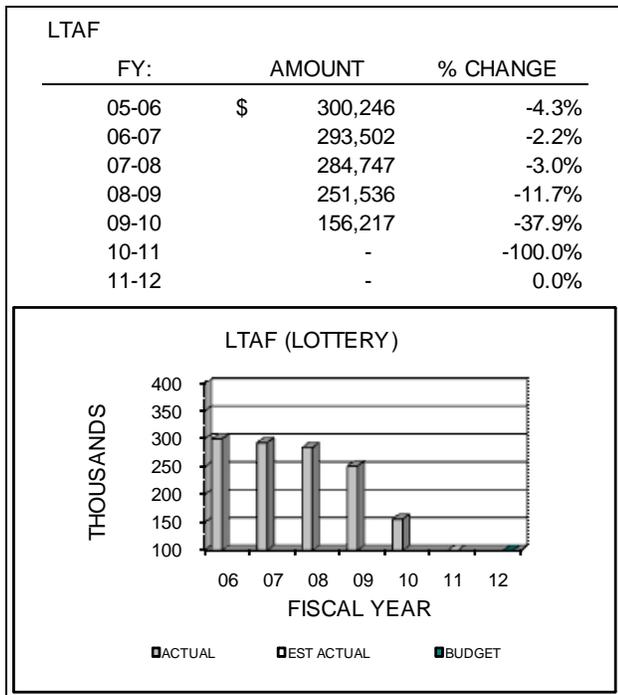


LOCAL TRANSPORTATION ASSISTANCE

Legal Authority: Arizona Revised Statutes Sections 5 - 522, 40 - 1101, and 40 – 1102

Description: A portion of the lottery monies is distributed to cities and towns. Distribution is based on the population of a city as compared to the total populations of all the cities and towns. These funds must be used for transportation systems including street and highway projects and transit programs.

The City is eligible for monies from the Powerball Lottery game; however, this program has only reached the revenue thresholds that resulted in distribution to the Cities in FY 1998. The State lottery dollars have been swept by the State and the City does not expect to receive these funds in the future.



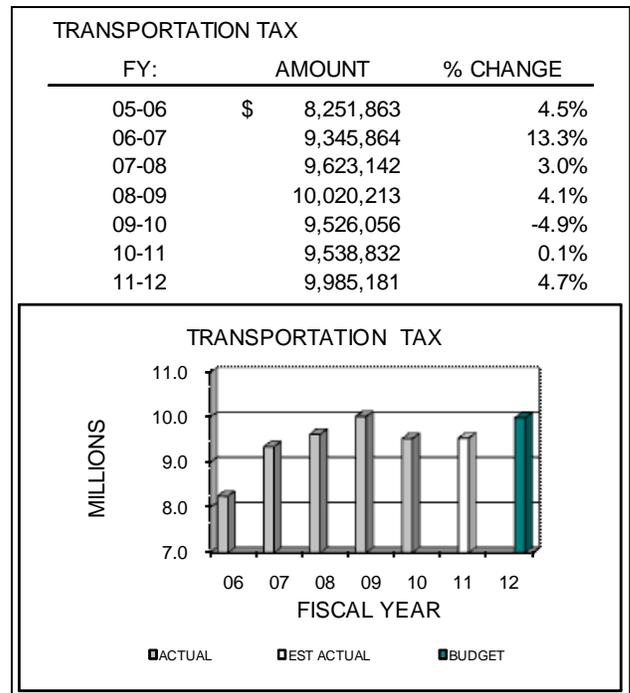
TRANSPORTATION TAX

Legal Authority: Resolution 2004-48, approved by voters May 2000.

Description: The Transportation tax was approved by voters to address four transportation issues. This tax was approved for a period of twenty years. The tax helps pay for a 4th Street overpass, safety improvements, street improvements, and transit services. The transportation tax is assessed on the same goods and services as the City's general sales tax. The current tax rate is 0.721%.

Transportation Tax Rate Breakdown	
4th Street Overpass	0.160%
Street Improvements	0.186%
Safety Improvements	0.080%
Transit Services	0.295%
Total	0.721%

A small increase is anticipated in overall Transportation tax revenue due to slow local economic recovery and the passage of the APS Franchise Agreement.



ENTERPRISE FUNDS

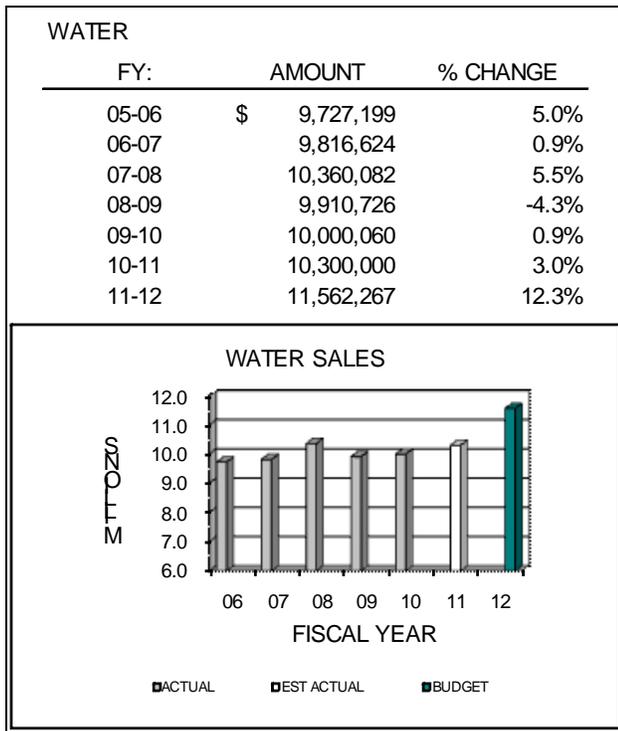
WATER SALES

Legal Authority: City Code, Title 7, Chapter 3, Section 11

Description: The principal revenue for operating and managing the City's water system is derived from rates and charges for water services. Monthly water bills consist of 1) a base charge based on meter size and 2) a charged based on actual water consumption by customer class. Most single family accounts are based on an inverted rate structure for consumption levels to encourage water conservation practices. All other customer accounts are charged based on a flat rate per 1,000 gallons.

The rates for each customer class were reviewed in 2010 using an outside consultant. Rate changes were presented to and approved by Council in the fall of 2010 with an effective date of January 1, 2011. The rate will increase annually for five years.

Revenues in FY 2009 decreased due to a wet summer season. With the approved rate increase we are expecting moderate growth in FY 2011 since the increase was effective for only 6 months. In FY 2012 we are expecting a much hire increase related to the prior year increase and an addition rate increase on January 1st.



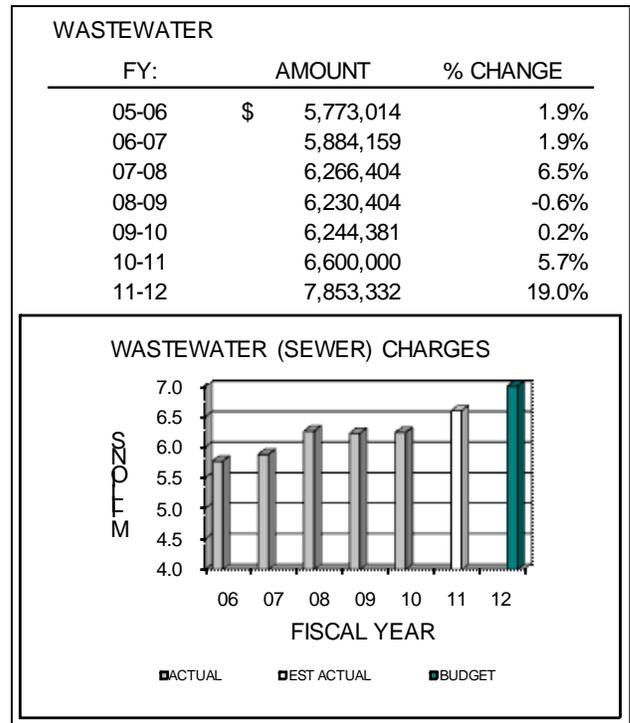
WASTEWATER SERVICE CHARGES

Legal Authority: City Code, Title 7, Chapter 2, Section 39

Description: The principal revenue for operating and managing the City's wastewater system is derived from revenues generated from wastewater (sewer) rates and user charges. Most residential customer charges are based on average water consumption for the proceeding winter months (Dec-Mar). All other customers are billed based on actual monthly metered water usage unless they can measurably separate which quantity of water does not reach the wastewater system.

The rates for each customer class were reviewed in 2010 using an outside consultant. Rate changes were presented to and approved by Council in the fall of 2010 with an effective date of January 1, 2011. The rate will increase annually for five years.

With the approved rate increase we are expecting moderate growth in FY 2011 since the increase was effective for only 6 months. In FY 2012 we are expecting a much hire increase related to the prior year increase and an addition rate increase on January 1st.

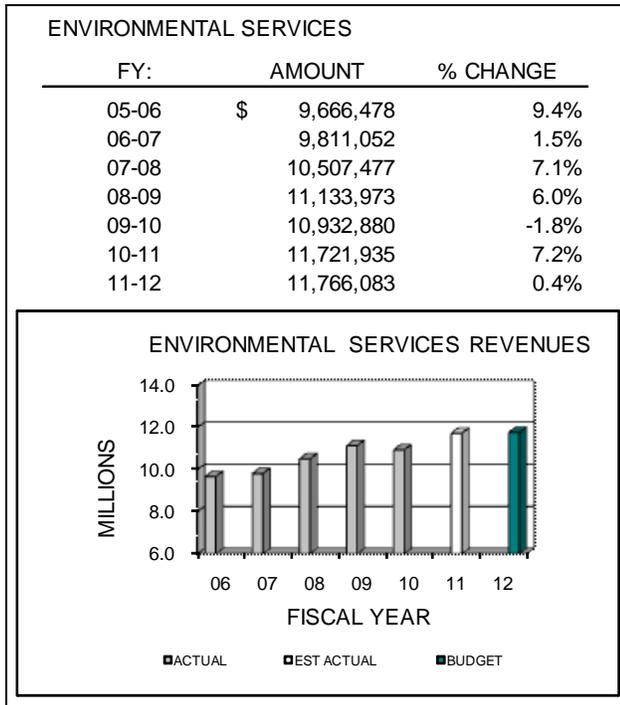


ENVIRONMENTAL SERVICES

Legal Authority: City Code, Title 7, Chapter 4, Sections 8-9

Description: Environmental Services disposal service revenue is comprised of solid waste collection charges, hoist and haul fees, landfill dumping charges, inert materials landfill fees, environmental service fees, and residential and commercial recycling. Service charges for residential and commercial customers are based on size of container and frequency of pickup. Hoist and haul is based on a cost per pull plus tonnage. Receipts from fees charged for dumping at the City Landfill are based on tonnage. The environmental service fee is a fixed monthly charge.

The increase in revenues for FY 2012 reflects a rate increase in residential collections, effective mid-year of FY 2011. This is a five percent rate escalator available for over the next year.

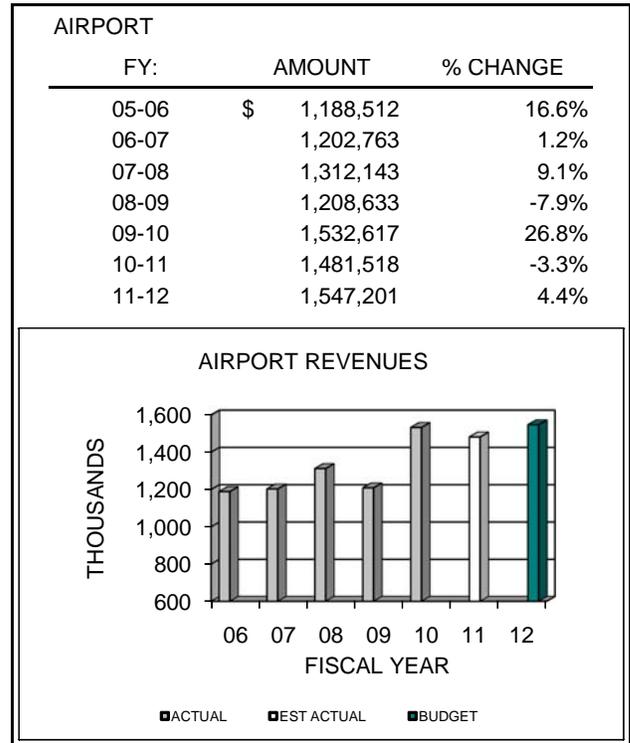


AIRPORT

Legal Authority: City Code, Title 8, Chapter 6, Sections 1-8

Description: Airport revenue is derived from the rental of airplane hangars, tiedowns, tiedowns with electricity, and shades rented to various individuals and vendors. Landing fees are charged at a rate of \$1.05/1,000 pounds based on gross certificate landing weight of aircraft. Rental revenue from terminal rent consists of space, concession and advertising fees. Revenues are collected from the sale and storage of aviation fuel. A \$3.00 PFC charge is collected from the ticket sales of passengers embarking from Pulliam. PFC revenue is not used for operating expenditures.

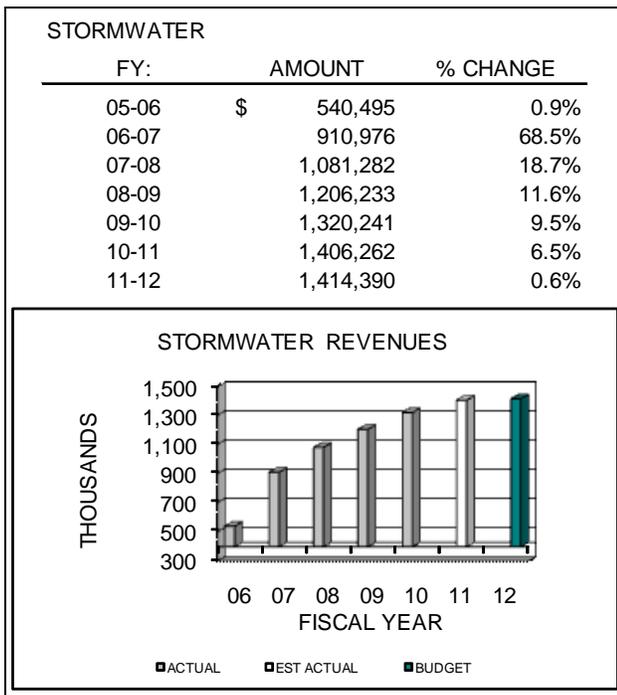
The trend of increases from FY 2006 through FY 2012 were primarily due to new terminal leases, growth in ground leases, auto rental revenues, and revenue from new hangars that were constructed in FY 2005. Revenue was down in FY2009 due to hanger/tie vacancies and decreased passenger travel during the economic slump. In FY-2011 Horizon Airlines withdrawal from this airport, as well as the recession, negatively affected the terminal rents, hangar rents, tie downs, shades, landing fees and PFC collections. The City is actively pursuing grants which would encourage an airline to establish regular daily service with the Pulliam Airport. Gradual recovery from the recession is projected to positively impact Airport revenues in FY 2012.



STORMWATER

Legal Authority: City Code, Title 12, Chapter 2, Section 3

Description: Stormwater revenue is determined by the number of Equivalent Runoff Units (ERU's) on a property. An ERU is defined as 1500 square feet of impervious matter. Charges are the same for both commercial and residential customers. The first year of implementation was FY 2004 with a rate of \$.53 per ERU. The FY 2007 actual revenue increase of 68.5% was due to the new stormwater rate of \$0.92 per ERU. It covered additional staff, additional costs related to the mandated NPDES permit activities, and a proposed Drainage Spot Improvement Program. The rate increased by \$0.10 per year, reaching its current level of \$1.30 per ERU in FY-2011. This rate will remain static for the foreseeable future.



CAPITAL BUDGET

RELATIONSHIP BETWEEN OPERATING AND CAPITAL BUDGET

The Five-Year Capital Improvement Plan (multi-year, long-range study of construction and/or acquisition of high cost items with an extended useful life) is prepared separately from the Annual Budget and Financial Plan (focus on municipal service delivery programs which generally are of an on-going nature); however, the two processes are inter-related.

The operations and maintenance of major capital facilities and infrastructure can significantly impact the operating budget and, must be considered prior to approval and commencement of acquisition of a particular capital asset. In the capital improvement plan for the City, various components have greater impact on the operating budget than other elements and, may even override operating budget constraints, e.g., mandatory environmental regulatory compliance.

Upon completion of the latest rate model, the Water and Wastewater Enterprise Fund's revenue structure is sufficient to meet existing and future impacts of capital, operating requirements including environmental sanctions and debt. Proposed, as well as existing, debt service is included because the changes in debt service requirements must be built into the rate models in determining what, if any, rate increases are required each year.

The Highway User Revenue Fund designates a portion of State distributions to the pavement maintenance program. The program is important in order to keep roadways in good condition and not allow significant deterioration. An additional component of the maintenance program is funding for ADA compliance for curb cuts, curb returns, and deteriorating sidewalks. The major impact on street maintenance is the addition of roads from private development. The Streets division has maintained level staffing through the investment in new, more efficient equipment.

BBB projects will have a significant impact on operating budget requirements. Streetscape and FUTS trail maintenance will require an ongoing level of effort to maintain landscaping. Greater consideration is being given to design and maintenance requirements for future streetscape projects to keep maintenance costs as low as possible. The completion of several parks projects constructed in conjunction with the Parks and Recreation bond program require a major increase

in the Parks maintenance budget. City Council has determined that any increased maintenance costs associated with the bond projects will be paid for from BBB funds. Staff has balanced construction maintenance responsibilities and funding sources in the Parks and Recreation Bond program.

CAPITAL IMPROVEMENT PLAN

What is a Capital Improvement Plan?

A Capital Improvement Plan is a multi year, long-range study of the construction and/or the acquisition of high cost assets that have an extended useful life usually greater than five years. A long-range plan is needed because of the lead times required to adequately finance, design and/or plan, budget, and implement construction or acquisition of the capital project needs of a community.

Planning in one or two-year increments has proven to be inadequate because of the complexity of projects and the public input process, as well as the design time needed for engineering plans, specifications, and right-of-way acquisition.

After Council has identified priorities and input has been received from all City departments, the development of the actual Capital Improvement Plan is completed. This requires coordination between the budget function and engineering because of the impact of constructed capital projects on the operating budget. For example, bond funds might be used to construct a branch library. However, once construction is completed, the library must be staffed, utility bills must be paid, and the facility must be cleaned and maintained. Therefore, an effective capital improvement plan should always be viewed in context of its impact on the operating budget. You will find anticipated future operations and maintenance impacts as projects are completed in the Capital Improvement Project section of this budget book.

What does a CIP provide?

- **Cash management capabilities.** The dollars expended on Capital Improvement Plans in jurisdictions experiencing substantial growth or revitalization will often comprise 40% or more of the total budget. By reviewing the sources and uses of funds on a project basis and within the context of the entire CIP, as well as the related cash flows, a jurisdiction can maximize its investment earnings.
- **Debt management.** A CIP allows a jurisdiction to plan the financing requirements and the debt repayment schedule to allow for current and future needs relative to debt service capacity.

- **Expenditure controls.** Funds are expended as they were intended to be spent. The appropriations figure becomes the project management budgets. It is typical for most jurisdictions in their process to budget a 15% to 20% overhead factor to cover engineering and design costs as well as to provide for contingencies.
- **Budgetary controls.** Operating cash flow projections on a project basis serves as a check and balance on a project's progress both in terms of the time schedule and expenditures to date compared with percentage completion.
- **Minimize disruption to citizens.** By looking at the overall impact of the proposed CIP in any given year, the disruption of services or inconvenience imposed by construction activity in a locale can be kept to a minimum. For example, citizen complaints can be minimized by not scheduling the chip sealing of a major arterial street concurrently with ongoing construction on immediately adjacent streets. Additionally, a comprehensive review of multiple projects to ensure adequate coordination can minimize multiple disruptions in a given area.

FY 2012 CAPITAL IMPROVEMENT PLAN

The City budget for FY 2012 includes capital improvement projects totaling \$80.8 million. This amount includes \$28.7 million in carryover items that have been budgeted. Project funding is comprised of the following: \$14.8 million in grants primarily for airport, water, and beautification projects. \$25.5 million in general obligation (G.O.) bonds and capital leases for the construction of Fire Stations, and FUTS open space and other projects that were approved by the voters in the 2004 and 2010 General Election. In May 2004 General Election, the citizens of Flagstaff authorized the City to proceed with ten new projects totaling \$155.2 million. These projects will be phased in over a ten-year period with debt being issued in conjunction with the timing of each project. In November 2010 General Elections, the citizens of Flagstaff authorized the City to proceed with two new projects totaling \$21.2 million. Each proposed project will be discussed below in its appropriate fund. Project listings are located in the Capital Improvement section of this book.

A separate Capital Budget and Capital Improvement Plan (Five-Year) will be prepared from the Annual Budget biannually. Detail project descriptions including location, justification, planning document references, operating impact, and funding and expenditure data are provided for all funded projects.

General Government – Sixteen projects are scheduled for FY 2012 for a total of \$32.8 million. Projects included in this category are several of the projects authorized by voters in the November 2010 election. Major projects include street and utility improvements, communication system, FUTS and open space land acquisition, court facility, and Presidio Subdivision.

Streets/Transportation – The City currently has 634 miles of paved streets, as well as an additional 14 miles of alleys and 14 miles of unpaved streets. Three major programs are funded in the CIP for the City's streets and related infrastructure. These include an annual maintenance program of chip seal and overlay to extend the useful life of the existing street system; a streets/arterial improvement program to bring streets into current standards or widen to meet existing and anticipated traffic flow patterns; and capital projects including the West/Arrowhead improvements, and Beulah Blvd. extension. There are a total of 15 Streets Transportation projects scheduled at a budgeted cost of \$6.3 million. HURF revenues fund \$1.0 million of these projects with Transportation Tax funding \$5.0 million.

BBB Funds – Projects include Beautification, Tourism and Recreation funding. Major projects include Woodland/Beulah medians, Butler medians, 4th Street Corridor, and continuing our connectivity of FUTS Trails. This year Federal and State grants will provide funding of \$1.7 million. 29 projects are scheduled at a budgeted cost of \$6.1 million for FY 2012.

Utilities Fund – Major projects for Water production and distribution include \$4.4 million for Inner Basin Pipeline, \$1.0 million Inner Basin Tree Removal, and \$1.8 million for shallow well development at Red Gap Ranch. Eleven water projects and seven wastewater projects are scheduled at a combined budget of \$11.1 million for FY 2012.

Airport Fund – Three projects are scheduled at a budgeted cost of \$8.5 million for FY 2012. The projects include pavement marking, apron reconstruction and access road capacity.

Environmental Services Fund - This year's CIP includes four projects for a total cost of \$10.4 million for fueling station, stormwater infrastructure, maintenance building, maintenance building and a municipal services maintenance facility.

Stormwater Fund – Seven projects are budgeted in the Stormwater fund with a cost of \$5.0 million in FY 2012. These projects include; drainage spot

improvement, the Rio De Flag parking replacement and Rio De Flag Hydrology Analysis.

CAPITAL PLAN IMPLICATIONS

For a community to continue to grow and prosper, capital improvement needs must be balanced with the burden placed on its citizens to fund them. Therefore, the capital improvement program is evaluated in terms of its impact on a variety of factors such as property taxes, utility rates, and entering into other long-term commitments, i.e., affordability factors.

Property Tax: Servicing general obligation debt over the previous five years is shown in the community profile section. The table shows that debt as a percentage of assessed and per capita debt has actually declined. This debt is related to the voter authorized sale of bonds in May 2004 in the amount of \$155.2 million and in November 2010 in the amount of \$21.2 million.

Utility Rate Structure: The City has contracted with an outside agency to review the Water and Wastewater rate structure and provide a new rate modeling program. This rate model provides for major capital improvements, additional bond funding, and increased operating costs. The rate model has demonstrated a need for a rate increase which was presented to council in the fall of 2010. Rates will increase annually beginning January 2011.

BBB Sales Taxes: The voters approved a 2% BBB tax in 1988 with a ten-year sunset provision and renewed the tax an additional fifteen years in March 1996 and 2010, extending the tax to March 2028. Capital projects currently underway include streetscape along corridors, and the FUTS (Flagstaff Urban Trail System) connectivity and various recreation projects.

Transportation Taxes: In the May 2000 election, the voters approved a transportation tax that started at 0.51% and increased incrementally to 0.601%. The City Council approved an increase of 0.064% in the transit portion of the tax effective September 1, 2001, that increased the tax rate to 0.574%. The City Council approved another increase to the transit tax of 0.027% effective July 1, 2003 which increased the total transportation tax to 0.601%. In May 2008, the voters approved an additional tax increase for transit of 0.12%, raising the total transportation tax to 0.721%.

DEBT

DEBT CAPACITY

The City's legal debt margin, shown on the following page, demonstrates adequate capacity to complete the capital projects passed with the May 2004 bond election and the November 2010 election. Projects will be initiated over time through issuing new debt within capacity as old debt retires.

CURRENT DEBT POSITION

The City's underlying bond rating for general obligation bonds is presently "AA" by Standard & Poor's Corporation and "Aa2" by Moody's Investor Services. In assigning a rating to bond issuance, the rating agencies analyze several factors to determine an entity's ability to repay its debt. Some of these factors are described in the following text.

Economic factors reviewed include measures of growth such as: population and housing demographics; employment base; unemployment rate; competitiveness of services provided by the governmental entity with surrounding jurisdictions; and vulnerability to revenue streams dependent on economy, e.g., sales taxes and delinquency rates on property tax collections. The City is well positioned because of its location and the diversity of its economic base.

Financial performance factors focus on the entity's ability to maintain a balanced budget regardless of economic circumstances. Recurring revenue streams without reliance on one-time revenue sources, e.g., asset seizure funds or fund balance should support ongoing expenditures. Maintaining a fund balance of 10% of budgeted appropriations is indicative of sound financial management practices.

Debt factors analyzed include indebtedness trends, debt history, current debt burden, and debt repayment schedules. The economic feasibility and need for projects financed with debt are also evaluated, as there is a correlation between perceived benefit received and ability or willingness to repay debt. The history of past voter approved bond authorizations is evaluated as an indicator of taxpayer willingness to repay debt, as well as the amount of overlapping debt imposed on the taxpayer. Development of a long range capital improvement plan is a primary method of planning for future debt needs and is a meaningful way of demonstrating budgetary and fiscal controls.

Administrative factors reviewed include the professionalism of the administration relative to budgetary policies and practices, financial reporting and results of independent audit, and effective management practices. Debt limitations, tax rate and levy limitations and unused debt margins are also assessed. Focus on management capabilities includes personnel turnover, labor relations, and legal and political constraints evident in the organizational structure. Finally, assessment procedures are reviewed and property valuations are trended and analyzed.

Quality of Life factors include the physical, environmental, and social/cultural amenities of a community, which enhance the desirability as a place to live and thereby add to the valuation of the tax base.

Legal Debt Limitations are assessed at 6% and 20% of the assessed valuation of real property. The 20% category includes water, sewer, artificial lighting, parks, open space, recreational facilities, public safety, law enforcement, fire and emergency services, and street and transportation facilities. The 6% category includes everything else. The following table reflects City capacity in each category.

General Obligation Debt	
July 1, 2011	
20% Limitation (Water, Sewer, Lighting, Open Spaces, Recreation, and Fire Facilities Purpose Debt)	
Assessed Valuation	\$ 791,371,939
Allowable 20% Debt	\$ 158,274,388
20% Debt Outstanding	(27,845,000)
Allowable Debt Margin	<u>\$ 130,429,388</u>
6% Limitation (All Other General Obligation Debt)	
Assessed Valuation	\$ 791,371,939
Allowable 6% Debt	\$ 47,482,316
6% Debt Outstanding	-
Allowable Debt Margin	<u>\$ 47,482,316</u>

DEBT SERVICE

At July 1, 2011, the total actual indebtedness is \$157 million. FY 2012 annual debt payments are projected to be \$16.9 million with an additional \$3.5 million as proposed debt. At the start of the fiscal year, July 1, 2011, the City's 20% general obligation debt of \$27,845,000 is well below the legal limit by \$130,429,388. The City has no outstanding general obligation debt in the 6% category. Thus, the full allowable debt margin of \$47,482,316 is available. The following table illustrates the total actual indebtedness through the life for all currently outstanding debt.

	Principal	Interest	Total
2012	11,850,389	5,073,816	16,924,205
2013	9,945,826	4,291,262	14,237,088
2014	8,409,561	3,890,134	12,299,695
2015	8,006,575	3,551,922	11,558,497
2016	8,105,510	3,234,446	11,339,956
2017	7,846,421	2,888,667	10,735,088
2018	8,034,946	2,570,793	10,605,739
2019	8,386,161	2,237,997	10,624,158
2020	8,745,616	1,888,622	10,634,238
2021	6,268,435	1,543,106	7,811,541
2022	6,519,752	1,311,987	7,831,739
2023	5,595,900	1,074,118	6,670,018
2024	4,012,638	884,766	4,897,404
2025	3,214,305	746,189	3,960,494
2026	3,384,941	611,651	3,996,592
2027	3,660,634	473,875	4,134,509
2028	2,182,785	348,105	2,530,890
2029	1,660,545	250,853	1,911,398
2030	1,460,000	173,101	1,633,101
2031	1,285,000	99,375	1,384,375
2032	1,345,001	33,624	1,378,625
	119,920,941	37,178,409	157,099,350

FY 2012 CITY COUNCIL GOALS AND PRIORITIES

In the summer of 2010 the Council attended a retreat to allow them to update their goals for the organization. From this retreat we have the following goals:

- A sustainable community through economic vitality, environmental protection, and social inclusion
- Diversity of arts, culture, and educational opportunities
- Livability through good neighborhoods, affordable housing, and varied recreational activities
- Effective governance
- Maintain public safety short response times and encourage expanded health services
- Maintain and deliver quality, reliable infrastructure

These goals are represented in the performance measures of each Section located in the Department Detail section of the book.

The Council also discussed and ranked what they see as priorities. The rankings of Tier 1 priorities required 4 or more council member's votes, Tier 2 received 3 council member votes, and Tier 3 received 2 votes. The following is a list of those priorities:

Tier 1

- Explore possibility of a second airline.
- NACET expansion and Science Park approved and construction commenced.
- Adopt a Water Policy resolution including water adequacy, funding, and rain water harvesting.

Tier 2

- Develop and implement a Property Maintenance Ordinance (PMO).
- Implement traffic solutions contained in the Transportation Master Plan.
- Acquire open space with unspent 2004 bond money.
- Development and implementation of an incentive policy for commercial infill.
- Maintain existing parks (no new ones).
- Substantial progress towards a snowplay area.
- Provide a briefing on residential infill incentive policies.
- Explore bi-monthly trash and recycling schedules.
- Conduct a community conversation about diverse cultures and consider a gay rights ordinance.
- Make sure we are following the Inclusive Cities Resolution.

Tier 3

- Year round homeless shelter with one-stop social services.
- Restore staff pay cut and get competitive pay.
- Redevelopment of Kmart building on 4th street.
- Establish fiscal policies.
- Explore partnerships with Tribal and other governments; including recharging Alliance with a 5-year strategic plan.
- Endorse November 2010 bond issue individually and work to pass.
- Review priorities in CIP.

